

No. 22592

JUN 19 1968

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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SAN MARINO ELECTRONIC  
CORPORATION, a California  
corporation,

Cross-Appellant,

vs.

GEO. J. MEYER MANUFACTURING  
CO., a Wisconsin corporation,

Cross-Appellee.

No. 22592 ✓

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Appeal from the United States District Court

for the Central District of California

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APPELLANT'S BRIEF

\_\_\_\_\_

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CROSS - APPELLANT'S OPENING BRIEF

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STATEMENT OF PLEADINGS AND JURISDICTIONAL  
FACTS

A. The Present Action

Plaintiff-cross-appellant, San Marino Electronic Corporation (hereinafter "SME"), commenced the present action for declaratory judgment of patent invalidity and non-infringement in October, 1964 (R. 2-30)<sup>1</sup>, shortly after SME had been charged by defendant-cross-appellee, Geo. J. Meyer Manufacturing Co. (hereinafter "Meyer"), with infringement of the patent-in-suit, United States Letters Patent No. 3,133,640 (hereafter "'640 patent"). (R. 26-27; Ex. 10) Subsequent to Meyer's Answer and Counterclaim for infringement of the '640 patent, SME filed a Second Amended Complaint for anti-trust violations, declaratory judgment of patent invalidity, non-infringement and patent misuse. (R. 94-146) Meyer counterclaimed for patent infringement. (R. 811-832) Meyer is the assignee of the '640 patent pursuant to a Patent Transfer Agreement dated September 21, 1959 (Ex. 8) (hereinafter the "Patent Transfer Agreement").

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<sup>1</sup>"R." references are to pages of the single, stipulated record on appeal.



B. Jurisdictional Statement

The Second Amended Complaint alleged jurisdiction of the District Court (hereafter "Trial Court") over the second claim for relief therein; pleaded under §§ 1338 and 2201 and 2202 of the Judicial Code of the United States (Title 28, U. S. Code), in that the action was for declaratory judgment with respect to the validity of the alleged infringement and non-enforceability of a United States patent (R. 105-111). Meyer's counterclaim for infringement of the '640 patent averred jurisdiction of the Trial Court also under § 1338 of Title 28 of the Judicial Code (R. 154-158). There was further pleaded by SME in the Second Amended Complaint, as a first claim for relief, a claim under the antitrust laws of the United States (R. 94-104), and as a third claim for relief, a claim for declaratory judgment of invalidity and non-infringement of another patent, No. 3,081,666. (R. 112-116) The latter claim for relief was subsequently dismissed by stipulation of the parties (R. 810); and the antitrust claim was severed by Pre-Trial Order No. 1 and deferred both for discovery and trial until after the trial of the second claim for relief involving patent No. 3,133,640 (R. 836-837). The Trial Court concluded that it had jurisdiction over the parties and the subject matter. Conclusion of Law No. 1, R. 1832; Conclusion of Law No. 2, (1954).

The issue as to whether Meyer had misused the '640 patent was tried first during September 27, 28, 29 and 30, and,





sulted in a ruling in favor of Meyer (Tr. \*725-741)<sup>1</sup>. Findings of Fact, Conclusions of Law and Order for Judgment were signed by the Trial Court on January 24, 1967 (R. 1813-1837). The issues of patent validity and infringement of the '640 patent were tried commencing January 3, 1967 and concluding January 31, 1967 (Tr. 1-2515). On April 7, 1967, the Trial Court filed a memorandum of its tentative conclusions (R. 1847-1851) and heard further arguments of counsel on April 17, 1967, with respect to such tentative conclusions (Tr. 2516-2614). On June 9, 1967, the Trial Court issued a further memorandum of its conclusions respecting the issues of patent validity and infringement (R. 1862-1867), and heard further arguments of counsel with respect to such conclusions on June 16, 1967, thereupon indicating its final conclusions orally from the bench (Tr. 2683-2706). Findings of Fact, Conclusions of Law and Order for Judgment (the latter referencing the Findings of Fact and Conclusions of Law on the misuse issue signed January 24, 1967) were entered October 10, 1967 (R. 1938-1958).

Although the Trial Court in its October 10, 1967, Order for Judgment did not thus adjudicate the antitrust claim for relief pleaded in the Second Amended Complaint, the Court expressly determined, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, that there was no just reason for delay and expressly directed that final judgment be entered upon all

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"r." references are to the transcript of the infringement portion of the trial; "Tr." references with an asterisk are to the transcript of the misuse portion of the trial.



vered claims theretofore tried by the Court (R. 1959-1962).  
jurisdiction of this Court of Appeals over the present appeal is,  
therefore, predicated upon 28 U.S.C. § 1291.

SME's Notice of Cross-Appeal was filed November 20,  
1967. (R. 1969)

C. Scope of the Cross-Appeal

SME appeals from those portions of the Order and  
Judgment entered on October 10, 1967, dismissing, upon their  
demands, SME's claims that Meyer has misused its patent and been  
guilty of unclean hands; awarding Meyer its costs incident to  
litigation on the issue of misuse as taxed by the Clerk; and directing  
that each party bear its own attorney's fees.



## STATEMENT OF THE CASE

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### A. Summary of the Facts.

#### 1. Introduction.

This statement of the facts is set forth pursuant Rule 18.2, Rules of the United States Court of Appeals for the Ninth Circuit. It is SME's contention on appeal that the Trial Court erred in failing to conclude that Meyer misused the '640 Patent and in failing to award SME its reasonable attorneys' fees in view of Meyer's course of inequitable conduct since its acquisition of rights under the Patent Transfer Agreement. To this end, this summary is directed to two classes of facts: (1) those which establish the framework of the instant controversy and concern the business, activities and products of the parties Plaintiff and the commercial background against which such business, activities and products are set; and, (2) those which demonstrate Meyer's activities within this framework, and the effect thereof, and establish the basis upon which SME's claims herein are based.

#### 2. SME's Business and Activities.

SME is a small California corporation having its principal place of business in El Segundo, California. (Finding of Fact No. 1; R. 1814) SME was organized in late 1962 to manufacture and sell its model 303 Electronic Empty Bottle Dispenser which was first placed on the market in early 1963. (Finding of Fact No. 27, R. 1829) SME's only products are



empty bottle inspection machines. In May, 1964, the '640 patent was issued to Meyer. In August 1964 Meyer placed SME, and its then main customer, Crown Cork and Seal Company, on notice of infringement of such patent (R. 28-29). In October, 1964, SME brought the present suit for declaratory relief from the threat of patent infringement. SME did business at an annual rate of approximately \$400,000.00. To the date of the filing of this appeal, the cost of defending the litigation brought upon SME by Meyer has been approximately \$130,000.00.

### 3. Meyer's Business and Activities

Meyer is a Wisconsin corporation having its principal place of business in Cudahy (Milwaukee County), Wisconsin, and other places of business in the United States and abroad. (Finding of Fact No. 2, R. 1814) As of the time of this litigation, Meyer did business at an annual rate of approximately 35 million dollars. Meyer manufactures an entire line of bottle handling equipment used by soft drink, beer and milk bottling companies. Among the equipment manufactured and sold by Meyer are washing machines, packing machines, filling and bottle sorting machines, labeling machines, and an empty bottle inspection machine. (Finding of Fact No. 2, R. 1814; R. 35, 36) Meyer's empty bottle inspection machine, designated Mark IV, has been marketed by Meyer since late 1959. Prior to that time, Meyer did not have an empty bottle inspection machine in its line. (Finding of Fact No. 17, R. 1824) Such machine derived from Meyer's acquisition of rights under the only two





tent applications owned by Industrial Dynamics Corporation hereafter "IDC"). One of these patent applications was the parent application Serial No. 741,634 upon which a continuation patent application, Serial No. 60,753, was based. This continuation application, filed by Meyer in October of 1960, resulted in the issuance of the '640 patent in May of 1964. (Finding of Fact No. 4, 6, R. 1815, 1816-1817)

Meyer is one of the largest, if not the largest manufacturer of bottling handling equipment in the United States. (Finding of Fact No. 2, R. 1815) In Meyer's own prospectus, Meyer admits to having more than 90% of the market for equipment in the bottling handling field. Specifically, the prospectus states that Meyer has more than 90% of the bottle labeler market; is only one major competitor in the filler and pasteurizer market; is the largest manufacturer of cleaner equipment; and is the only domestic manufacturer supplying all required equipment for fully integrated and automated beverage and bottle labeling lines. (Ex. 35) With respect to machines for detecting foreign articles in empty bottles, commonly referred to as empty bottle inspection machines, it is estimated that Meyer has in excess of 70% of the present market and has sold more than 70% of the machines in use (Ex. 35, 36). In reaching its position within the bottle handling industry, Meyer has accumulated somewhat over 200 patents. However, the president of Meyer recalls only two or three instances where Meyer has granted a license under its patents, notwithstanding Meyer's extensive patent portfolio.



\*578) Meyer has granted but one license under its empty bottle inspection machine patents.

4. Other Manufacturers of Empty Bottle Inspection Machines

Fredrick L. Calhoun, Donald D. Williams, and Les H. Wyman formed IDC, which corporation began to manufacture and sell an empty bottle inspection machine, designated Mark II machine early in 1958. (R. 1689) This machine was substantially in accordance with the teachings of the '640 patent. (Tr. 475; 2347) In 1959, IDC filed, in addition to the parent application hereinbefore mentioned, an additional application Serial No. 808,172 which resulted in the issuance of U. S. Patents Patent No. 3,081,666. This patent allegedly defines improvements over the Mark II machine, which improvements are incorporated in the Mark IV machine. (Finding of Fact No. 4, R. 1815, 1816) The Mark IV machine was marketed by IDC, as successor to the Mark II machine, from 1958 until execution of the Patent Transfer Agreement. This is the same Mark IV machine which Meyer has marketed since September 1959 until the present. (Tr. 967; Finding of Fact No. 6, R. 1817)

In September of 1959, Meyer acquired the then pending patent applications owned by IDC pursuant to the Patent Transfer Agreement. (Finding of Fact No. 17, R. 1824) At the time Meyer entered into such manufacture, according to Meyer's representatives, there was no other commercially acceptable machine for performing the function of empty bottle inspection.



inding of Fact No. 16, R. 1824; Tr. 907-908) Thus, from September 1959 through March 1960, Meyer was the only company commercially marketing bottle inspection machines.

Wyman terminated his relationship with IDC in July 1959. Shortly thereafter, Wyman formed a corporation called Industrial Automation Corporation (hereafter "IAC") which company began to manufacture and sell an empty bottle inspection machine in competition with Meyer. (Finding of Fact No. 22, R. 1826) This machine was first introduced to the market in approximately March of 1960 (Tr. \*195) Subsequently, IAC transferred its property rights, including patent applications relating to the empty bottle inspection machine which it was marketing, to the Perry-Wehmler Company of St. Louis, Missouri. (Finding of Fact No. 22, R. 1826)

Subsequent to the execution of the Patent Transfer Agreement, IDC's name was changed to Electro-Dynamics Corporation, which corporation was subsequently allowed to go dormant, serving only as a vehicle for the receipt of royalties from Meyer pursuant to the Patent Transfer Agreement. (Finding of Fact No. 18, R. 1824) Following the dormancy of Electro-Dynamics Corporation, Calhoun and Abner L. Browning, an IDC employee, formed a new corporation, Industrial Dynamics Company, Ltd. (hereafter "IDC Ltd."). Neither IDC, Electro Dynamics, IDC Ltd, Calhoun or Browning have produced an empty bottle inspection machine since September, 1959. IDC Ltd. has developed other bottle handling equipment, all of which equipment having been sold through Meyer. (Finding of Fact No. 20, R. 1825; R. 1697-1698)



Thus, at present, there are but four organizations commercially involved with the empty bottle inspection machine industry: the non-operating, virtually defunct Electro-Dynamics Corporation; the Barry-Wehmiller organization; and the present party litigants. Both Barry-Wehmiller and SME are presently under the cloud of cease and desist letters issued by Meyer. (Finding of Fact No. 22, 28, R. 1826, 1829)

5. Meyer's Course of Inequitable Conduct

a. Meyer's Misuse of the '640 Patent and Unclean Hands In Connection Therewith

The '640 patent derives from the parent application Serial No. 741,634 originally filed by Messrs. Calhoun, Williams and Wyman and subsequently assigned to IDC. Fourteen claims of this application were prosecuted in the United States Patent Office through allowance. (Finding of Fact No. 4, R.1815; Ex. )

On or about September 21, 1959, IDC and Meyer entered into a written agreement consisting of two parts. Pursuant to the first part, the Patent Transfer Agreement, IDC transferred to Meyer all of its right, title and interest in the two patent applications which IDC represented to Meyer as covering its machine to inspect empty bottles for the presence of foreign particles. The second part of the agreement of September 21, 1959 consisted of a Consultant Agreement between Meyer on the one hand, and Calhoun and Browning on the other hand, pursuant to which Calhoun and Browning agreed to act as consultants to







yer for a limited period of time to facilitate the transfer know-how relating to the bottle inspection machine then being manufactured by IDC to Meyer (Ex. 9). At this time, Calhoun and Browning were the principal officers and employees of IDC, Messrs. Williams and Wyman having terminated their relationship with IDC some months prior thereto. Neither Williams nor Wyman is a party to the consultant agreement in question. (Finding of Fact No. 6, R. 1816-1817)

Subsequent to execution of the Patent Transfer Agreement, at its own expense, on October 5, 1960, Meyer filed Application Serial No. 60753, a continuation of the parent application 741,634, which parent application was subsequently abandoned. (Finding of Fact No. 4, R. 1815-1816) The specification and drawings of the continuation application were identical to those of the parent application but additional broader claims were set forth in the continuation application and added by amendment thereafter. (Ex. 41) As a consequence of Meyer's prosecution of the continuation application, and the other transferred application, United States Letters Patent No. 3,133,640 and 3,081,666 were granted thereon, respectively. (Finding of Fact No. 4, R. 1816)

The Patent Transfer and Consultant Agreements have a number of clauses of particular significance to SME's claim of misuse of the '640 patent (Ex. 8, 9). As stated by SME at the trial on the issues of misuse, and as contended herein, both agreements contain non-compete and grant-forward clauses. Of



particular relevance are Article XIV of the Patent Transfer Agreement and paragraph 4 of the Consultant Agreement. The purpose, scope and interrelationship of these clauses will be discussed in greater detail hereinafter. The non-compete clauses were complemented by provisions in the Patent Transfer Agreement that between IDC and Meyer, Meyer had the sole right to make the bottle inspection machines. (Ex. 9, Article V. B.) Thus, Article B. confers upon Meyer the exclusive right to manufacture and sell the particular bottle inspection machines while Article XIV states that IDC will not compete in the manufacture or sale of such machines during the life of the agreement. The life of the agreement is clearly defined by Article XIII of the Patent Transfer Agreement as the pendency period of the transferred applications plus the life of the patents to issue thereon, a period of approximately 22 years. (Finding of Fact No. 7, 15, R. 1820, 1824)

As a further complement to the non-compete clauses, Patent Transfer and Consultant Agreements contain broad right-first-refusal and grant-forward clauses (Article VIII and paragraph 5, respectively) which provide for the disclosure and assignment of any improvement in bottle inspection machines at an additional royalty to Meyer and for the prompt and full disclosure to Meyer of any "electronic applications for the packaging industry".

In June, 1966, approximately seven years after execution of the Patent Transfer and Consultant Agreements, and less than four months prior to the trial on the issues of misuse in



e instant controversy, IDC (Electro-Dynamics Corporation) and  
yer entered into an agreement pursuant to which Article XIV  
the Patent Transfer Agreement dated September 21, 1959 was  
scinded and declared null and void. (Finding of Fact No. 11,  
1822)

At the time that the Patent Transfer and Consultant  
reements were entered into, IDC's two main technical employees  
re Browning and Calhoun; Williams and Wyman having terminated  
eir relationship with IDC. Neither Williams nor Wyman were  
und by either the Patent Transfer or Consultant Agreements.  
inding of Fact No. 6, R. 1817) Wyman did, however, enter into  
employment termination agreement with IDC but apparently its  
ope fell short of stopping the Wyman venture, that is, IAC.  
e Wyman termination agreement contains a provision that Wyman  
uld, for a period of years, be bound by all of the terms of  
e patent protection agreement entered into with IDC.  
is patent protection was expanded to the extent that it includes  
y inspection device utilizing the principles described in the  
plication for patents then pending. (Ex. 25)

Meyer and Calhoun considered using the Wyman termination  
reement and the patent protection agreement to eliminate Wyman  
a competitor. Apparently, the termination agreement, coupled  
th Barry-Wehmiller's entry into the field on the side of Wyman,  
d the prospect of a broadened patent protection to cover Wyman  
d an additional application from Calhoun, discouraged Meyer  
om suing Wyman at that time. (Ex. 27) It can be seen that





er and Calhoun were cooperating to eliminate Wyman as a competitor by two approaches: first, the employment termination agreement coupled with broadened claims, and second, by filing patents to cover the Wyman machine. Meyer, along with Calhoun, was pursuing three patent applications with full knowledge of Wyman's machine, and making every effort to cover Wyman's machine by these patent applications. This was done notwithstanding that it is clear the original patent application Serial No. 741,634 did not cover the Wyman machine, nor did the continuation application Serial No. 808,172, which is the other application assigned under the Patent Transfer Agreement. Thus, in March, 1960, Wyman went into business; on April 8, 1960, a patent application Serial No. 20,884 was filed by Calhoun and Meyer (Finding of Fact No. 23, R. 1826, 1827); and, in October, 1960, the broadened continuation application on Serial No. 741,634 was filed which resulted in the '640 patent.

The thrust of the drive to obtain means to eliminate the Wyman machine was continued on yet another front when Wyman filed an application for patent on a machine for inspecting empty bottles. The new attack was based upon Meyer's pending application Serial No. 20,884. Application Serial No. 20,884 was entered in an interference with the Wyman Patent Application Serial No. 21,164 (Finding of Fact No. 23). Calhoun, in a letter to one of the executives of Meyer, commented on the interference and the 20,884 application stating that he considered Meyer's position weak and that there was no true reduction to practice that could





favorably compare to Wyman's earliest date. (Ex. 26)

The Calhoun letter had a number of marginal comments hereon which were made by Mr. McConnell of the Meyer Co. These comments are as follows: "Wasn't this instigated by Wyman activity and [our] first examination of his unit?", "The real reason for the mosaic application [Ser. No. 20,884] at the time was to reach on Wyman." Thus the 20,884 application was filed to reach on Wyman after Wyman's machine was marketed and was based upon at best a vague and poor conception and reduction to practice, if any, by Calhoun. Notwithstanding these circumstances, Calhoun and Meyer entered into the interference with the pending Wyman patent application. Calhoun filed a preliminary statement in this interference under oath that he actively started to exercise reasonable diligence on or about December 19, 1958, toward reduction to practice and that he actually reduced the invention to practice on or about March 1, 1959 (Ex. 5). These statements were made notwithstanding there is no indication in Calhoun's work notebook that there were ever any experiments or tests or anything done with respect to the disclosures of the 20,884 application. (Ex. I)

With the Calhoun and Wyman patent applications in interference, Calhoun and Meyer attempted to add the continuation application to the interference. Thus, Wyman was confronted with all of the Meyer and Calhoun patents in the Patent Office. If Calhoun and Meyer were successful in any of the various interference strategies, they would have taken the first step toward



establishing infringement of the Calhoun and Meyer patents by  
man. The Patent Office denied Calhoun's motion to add, and  
denied Wyman's motion to dissolve the interference. (Ex. 5;  
Finding of Fact No. 23)

b. Fraud on the United States Patent Office

Prior to the formation of IDC, Messrs. Calhoun and Williams were employed by Hughes Aircraft Company in the guided missile division. (Tr. 99; Tr. \*171) During the course of their employment, Williams and Calhoun, named co-inventors of the subject matter of the '640 patent, acquired at least ordinary skill in the guided missile and missile tracking field, wherein the use of spaced reticle-AC systems for the electro-optical detection of objects against a background was well known prior to filing the parent application. After organizing IDC, the inventors devoted a number of months in unsuccessful attempts to develop an operative system for detecting particles in empty bottles before deciding that a scanning type of system, similar to that known in the guided missile and missile tracking art, was better suited for bottle inspection. Once it was decided that a centered optical system with radial scan was best suited for bottle inspection, IDC required only approximately one month to design and construct its first prototype of the machine described in the '640 patent. While the inventors appeared to have had some developmental problems they were mostly engineering problems, i.e., problems related to the application of the inventors' mechanical and electronic skills. Indicative of the application of such skills



e entries contained in a laboratory notebook maintained by  
lhoun during the development of the machine described in the  
40 patent. (Ex. I) At page 41 thereof, Calhoun states that  
everal systems such as these have been used in guided missiles".  
ch statement refers to a rough block diagram drawn in Calhoun's  
n hand depicting the scanning system of a Falcon guided missile.  
ill with reference to the Falcon guided missile system, at  
ge 41-42 of the notebook Calhoun states, "An in-line refraction  
stem can be made that is equivalent to this as follows:".   
ere follows a rough block diagram generally depicting the  
anning system disclosed by the '640 patent.

The art within which Calhoun and Williams derived  
eir skills, and the systems with which they worked, are  
rectly related to the detection principles alleged as invention in  
e '640 patent. (Finding of Fact No. 10, R. 1941-1942;  
nclusion of Law No. 6, R. 1955) What the named inventors did  
uld not be surprising or unobvious to a person skilled in the  
t as were Messrs. Calhoun and Williams. (Finding of Fact  
. 21, R. 1947)

Prior to the filing of the continuation application,  
ver, by another group of attorneys, caused a counterpart thereof  
be filed before the British Patent Office. (Ex. 41, page 345)  
ing the course of this British prosecution, the British  
ent Office cited British patent number 517,229, issued to  
man P. Stoate, as a basis for rejecting claims recited by the  
ed patent application. (Ex. 108) Stoate '229 teaches the





e of a centered optical system with a rotatable scanning member  
ving a single radial slit. The scanning member is disposed  
ove the bottle being inspected, with its axis of rotation  
incident with the common axis of a light source, bottle and  
photo cell. Meyer knew, through other attorneys than those  
Prosecuting the applications which resulted in the grant of the  
40 patent, of the Stoate '229 patent prior to its prosecution  
the continuation application. (Finding of Fact No. 15(a),  
1944) Meyer did not bring the Stoate '229 patent to the  
attention of the Patent Examiner even though it was more relevant  
an that cited by the Examiner.

Further facts regarding Meyer's misrepresentation  
the foregoing facts, and others, are set forth in greater detail  
rsuant to SME's argument on this issue.

c. Late Presented Claims

As stated hereinbefore, the parent application was  
led on June 12, 1958, listing Messrs. Calhoun, Williams and  
man as co-inventors thereof, such application being subsequently  
signed to IDC. IDC began selling an empty bottle inspection  
chine, the Mark II, allegedly corresponding to the subject  
ter of the claims of the '640 patent, early in 1958. Late in  
58, IDC began selling an improved machine, designated Mark IV,  
hch machine also allegedly corresponds to the teachings of the  
40 patent. Late in 1959, Meyer began marketing the Mark IV  
chine. In March of 1960, IAC began selling its empty bottle  
pection machine in competition with Meyer's Mark IV. In  
ober, 1960 more than two years following the first sale of the





ark II machine, Meyer filed the continuation application embodying broader claims than those recited in the parent application.

During the course of its argument herein, SME will show that the claims added during prosecution of the continuation application define a new and different invention from that originally relied upon in the parent application and that such claims are invalid in view of the prior sales by IDC, Meyer and AC of machines allegedly corresponding to the invention defined by the late presented claims.

In summary, there were before the Trial Court undisputed facts upon which SME bases its claim of Meyer's misuse of the '640 patent and its inequitable course of conduct warranting an award of costs and attorney's fees to SME.

#### B. Questions Involved

1. Whether the plain and simple meaning of Article IV of the Patent Transfer Agreement is that IDC shall not, anywhere in the world, for a period of approximately 22 years, make or sell machines for detecting foreign particles in empty bottles which are competitive with Meyer.

2. Whether Article XIV is a traditional non-compete clause.

3. Whether a patent is misused when the transfer of rights thereunder is coupled with a non-compete clause, Article XIV.



a. Whether the Trial Court was wrong, as a matter of law, in relying upon a reasonableness of purpose test to conclude that the inclusion of Article XIV does not amount to a misuse of the '640 patent.

b. Whether, in view of the plain meaning of Article XIV, Meyer has misused the '640 patent.

4. Whether the '640 patent is misused when the transfer of rights thereunder is coupled with the grant-forward clause Article VIII, A.

5. Whether Meyer's conduct in connection with the '640 patent, as it affected the market in which the '640 patent is operative, amounts to unclean hands.

6. Whether, by virtue of the rescission agreement of June 23, 1966, Meyer has, or can, purge itself of the misuse of the '640 patent.

7. Whether the result of Meyer's totality of inequitable conduct is the imposition on SME of such an injustice as to warrant an award of attorney's fees incurred incident to the instant controversy.

a. Whether the Court should disturb the Trial Court's erroneous conclusion regarding the award of attorney's fees.

b. Whether an award of attorney's fees to the prevailing party is proper where the losing party pursued a course of inequitable conduct.

c. Whether, since its acquisition of rights in the '640 patent, Meyer has pursued a course of inequitable



conduct evidencing such bad faith as to warrant an award of attorney's fees to SME.

(1) Whether Meyer has misused the '640 patent and been guilty of unclean hands in connection therewith.

(2) Whether Meyer committed a fraud on the Patent Office during prosecution of the application for the '640 patent by withholding known, relevant prior art; by misrepresenting its position with respect to such withheld art; and by misrepresenting the commercial success of machines corresponding to the '640 patent.

(3) Whether Meyer relied at trial upon claims that are invalid because they were first presented to the Patent Office more than one year after a public use or sale, or after the intervention of an adverse public right.

(4) Whether Meyer conducted pre-trial proceedings and utilized strained constructions and faulty demonstrations as to the teachings of the '640 patent during trial in a bad faith attempt to establish infringement of the '640 patent.

(5) Whether the whole of the foregoing course of conduct evidences an inequitable course of conduct the necessary result of which is to impose on SME an unjust burden of defense against the '640 patent.



## ERRORS RELIED UPON

The Trial Court erred in concluding that Article XIV and Article VIII. A. of the Patent Transfer Agreement and paragraph 4 of the Consultant Agreement do not constitute misuse of the '640 patent. (Conclusion of Law No. 14, R. 1835)

1. The Trial Court erred in concluding that Article XIV and paragraph 4, whether considered separately or together, do not constitute misuse of the '640 patent or unclean hands. (Conclusion of Law No. 7, R. 1833-1834)
  - a. The Trial Court erred in stating, as a finding of fact, the meaning attributable to Article XIV.
  - b. The Trial Court erred in concluding that Article XIV refers only to bottle inspection machines for which two patent applications had been filed and which IDC assigned to Meyer, and not also to competing bottle inspection machines. (Conclusion of Law No. 4, R. 1832)
  - c. The Trial Court erred in concluding that the life, or duration, of Article XIV is limited to the pendency period of the two patent applications referenced in the "Whereas" clause of the Patent Transfer Agreement. (Conclusion of Law No. 4, R. 1832-1833)





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- d. The Trial Court erred in concluding that, as the phrase "in competition with" is used in Article XIV, it means only that IDC is prevented from making and selling only those machines covered by applications referenced in the Patent Transfer Agreement. (Conclusion of Law No. 5, R. 1833)
- e. The Trial Court erred in concluding that, to the extent that the phrase "during the life of this agreement" in Article XIV tends to indicate that the protection afforded by that Article extends over the life of the patents to issue on the referenced applications, it is surplusage. (Conclusion of Law No. 5, R. 1833)
- f. The Trial Court erred in applying a reasonableness of purpose test to its determination of whether Article XIV and/or paragraph 4 constitute patent misuse or unclean hands. (Findings of Fact No. 14, R. 1823; Conclusion of Law No. 7, R. 1833-1834)
- g. The Trial Court erred in concluding that by virtue of the rescission agreement of June 23, 1966, Article XIV cannot presently impair Meyer's rights to protect the '640 patent. (Conclusion of Law No. 8, R. 1834)



2. The Trial Court erred in concluding that the grant-forward clause Article VIII.A. of the Patent Transfer Agreement does not constitute patent misuse or unclean hands. (Conclusion of Law No. 12, R. 1835)
  - a. The Trial Court erred in finding that the provisions of Article VIII.A. are reasonable. (Findings of Fact No. 25, R. 1828-1829)
  - b. The Trial Court erred in applying a reasonableness of purpose test to its determination of whether Article VIII.A. constitute patent misuse or unclean hands. (Finding of Fact No. 25, R. 1828-1829)
3. The Trial Court erred in concluding that the combination of the non-compete clause, the grant-forward clauses, and the right of first refusal clauses in the Patent Transfer and Consultant Agreements do not constitute unclean hands or patent misuse. (Conclusions of Law No. 14, R. 1835)

The Trial Court erred in concluding that Meyer's attempts to restrain competition from Wyman by broadening the pending '640 patent applications to cover Wyman's later developments; by filing an additional application and instituting an interference with Wyman's application;



and by sending Wyman's assignee cease and desist infringement letters do not constitute unclean hands or patent misuse.

The Trial Court erred in failing to award SME its costs of litigation incident to trial on the issues of patent misuse and unclean hands. (Conclusion of Law No. 24, R. 1958)

The Trial Court erred in concluding that each party should bear its own attorney's fees. (Conclusion of Law No. 24, R. 1958)

1. The Trial Court erred in failing to find and conclude that the totality of Meyer's inequitable and bad faith conduct has imposed an unjust burden on SME.

- a. The Trial Court erred in concluding that Meyer has not misused the '640 patent and has not been guilty of unclean hands with respect thereto. (Order for Judgment, R. 1837)

- b. The Trial Court erred in concluding that Meyer has not practiced a fraud on the United States Patent Office in its prosecution of the application for the '640 patent. (Conclusion of Law No. 14, R. 1956-1957)

- (1) The Trial Court erred in finding that





Meyer did not practice any fraud on the Patent Office by failing to call known relevant prior art to the attention of the Patent Office.

(Finding of Fact No. 15 (a), R. 1944-1945)

(2) The Trial Court erred in finding that Meyer's attorneys were not convinced of the relevance of such prior art. (Finding of Fact No. 15 (a), R. 1944-1945)

(3) The Trial Court erred in basing its determination as to whether Meyer committed a fraud on the Patent Office on Meyer's attorney's state of mind.

(4) The Trial Court erred in failing to find that Meyer misrepresented the commercial success of the invention allegedly taught by the '640 patent.

c. The Trial Court erred in failing to rule upon SME's contentions that claims 7-15, 17-24 are invalid because they were filed more than one year after public use began. (Conclusion of Law No. 17, R. 1957)

d. The Trial Court erred in failing to find that Meyer's contentions as to the teachings of the '640 patent, and its trial demonstrations exemplary thereof, were made in bad faith.



A. Summary.

SME's case on appeal may be simply stated as follows:

1. Meyer has unlawfully expanded the monopoly and the scope of the '640 patent by:

a. Contractually binding, wherever possible, the inventors thereof from further competitive developments with empty bottle inspection machines marketed by Meyer through broad non-compete provisions in the Patent Transfer Agreement; and,

b. Where not contractually possible, by filing and broadening patent applications, in bad faith, to cover competitive equipment.

The Trial Court erroneously condoned such activities by failing to conclude that, as a matter of law, such course of conduct amounts to patent misuse and uncleanness.

2. The Trial Court erred in failing to award ME its attorney's fees incurred with respect to the trial of the instant controversy and further erred in awarding Meyer its costs of litigation incident to the question of patent misuse. Such error stems from the Trial Court's further errors, as a matter of law, in failing to conclude that:

a. Meyer misused the '640 patent;

b. Meyer practiced a fraud on the



Patent Office by failing to come forward with known prior art, more relevant than that cited by the Examiner during prosecution of the '640 patent, while distinguishing the alleged invention defined by the '640 patent from the cited art on a basis which was clearly disclosed by the withheld art;

c. The '640 patent was sought to be enforced by Meyer while relying upon late presented claims, i.e., claims embodying subject matter first presented to the Patent Office more than one year after Meyer's use and sale of machines embodying such subject matter, and/or, claims first presented after the intervention of adverse public rights; and

d. Meyer's course of conduct from its acquisition of the '640 patent through trial on the merits is fraught with inequitable and bad faith pursuits.

The controversy on appeal stems not from a disputed factual basis, but rather from the erroneous conclusions drawn by the Trial Court as to the significance of the undisputed facts in view of the applicable legal principles.

Accordingly, SME's objectives herein are to seek to rectify that which SME contends are erroneous conclusions directed to an issue of law of great public interest, which conclusions are now published and stand as a precedent in this circuit; to recover costs wrongfully awarded Meyer; and to recover its attorney's fees for litigation inequitably imposed.



B. Meyer's Imposition Of The Anti-Competitive Provisions Of The Patent Transfer Agreement Is An Unlawful Extension Of The Patent Monopoly Amounting To Patent Misuse.

1. The Plain And Simple Meaning Of Article XIV Is That Industrial Dynamics Corporation Shall Not, Anywhere In The World, For A Period Of Approximately 22 Years, Make Or Sell Machines For Detecting Foreign Particles In Empty Bottles Which Are Competitive With Those Produced By Meyer.

The Trial Court properly concluded that the terms of the Patent Transfer Agreement are understandable and, therefore, interpreted the contract from its four corners without regard to extraneous evidence. (Conclusion of Law No. 18, R. 1836; Tr. \*329-330). It is well established that the correctness of an interpretation or construction so derived is purely a matter of law; that the instrument must be construed according to all of the terms employed; and, that a court is not at liberty to disregard words used by the parties or to insert terms not employed by the parties. Cases collected: 17 Am. Jur. 2d, Contracts, Sec. 241, 242, 259.

The Patent Transfer Agreement provides in relevant part:

Whereas, Fredrick L. Calhoun, Donald D. Williams and James H. Wyman, and Fredrick L. Calhoun and Abner L. Browning are the inventors of a machine, hereinafter called a "bottle inspection machine", which is used to detect and reject bottles coming from a bottle washer which have not been properly washed or which contain foreign matter, for which invention two applications for letters patent have been filed in the United States Patent Office on June 12, 1958, and on April 21, 1959, respectively, and which bear the serial No. 741,634 and 808,172, respectively.





#### Article XIV

Industrial agrees that it will not enter into competition with Meyer in the manufacture or sale of bottle inspecting machines during the life of this agreement.

#### Article XIII

Unless sooner terminated under Article X, this agreement shall continue in force to the end of the term of the last to expire of any United States Letters Patent obtained for either application serial No. 741,634 or application serial No. 808,172. . .

om the Consultant Agreement:

#### 4. Agreement not to compete

(Calhoun and Browning) agree that for a period of three years after completion of their services under this agreement, they will not, jointly or severally, enter into the employ of any person, firm, corporation or other organization or themselves engage in business when such employer, employment or business shall be in any way in competition with Meyer in its manufacture or sale of bottle inspection machines as defined in the agreement between Meyer and Industrial. (Pltf. Ex. 9)

In view of the Trial Court's conclusion that paragraph 4 of the Consultant Agreement has the same coverage effect as Article XIV except that it restrains only Messrs. Calhoun and Browning, for a limited period of time, (Conclusion Law No. 6, R. 1833) the following discussion, while applicable to paragraph 4, will be directed only to Article XIV.

The Trial Court concluded that the subject of Patent Transfer Agreement is the "bottle inspection machine" it is defined in the first "Whereas" clause; stated that the



agreement is directed to the bottle inspection or inspecting machines for which two patent applications were filed and referred to in the "Whereas" clause hereinbefore; (Finding of Fact No. 12 R. 1822); and concluded that the machines referred to in Article XIV are machines for which two patent applications referred to in the "Whereas" clause were filed, and only those machines. (Finding of Fact No. 13 R. 1823). It is submitted that the Trial Court's interpretation of Article XIV with respect to the meaning of "bottle inspecting machines" and the duration of Article XIV is stained and erroneous as a matter of law; and that such is the result of the Trial Court's failure to adhere to established legal principles relating to the interpretation and construction of contracts as hereinbefore set forth.

The position which the Trial Court has taken with regard to the meaning of Article XIV falls short of reality. This conclusion will become apparent from a careful analysis of the terms employed by the parties in Article XIV. In Article XIV there are three important phases:

1. "will not enter into competition with Meyer"
2. "in. . .bottle inspecting machines"
3. "during the life of this agreement"

Analysis should begin with the phrase, "in. . . bottle inspecting machines," the subject of Article XIV. It is first submitted that Article XIV does not, and was not, intended to refer to the "Whereas" clause; the "Whereas" clause refers to "bottle inspection machines", not "bottle



inspecting machines" as employed in Article XIV. Secondly, the "Whereas" clause is not, per se, a definition; there are more than five different phrases used to refer to the subject matter of the agreement in various clauses. The following are a few phrases so used: "bottle inspecting machines forming the subject matter of this agreement" (Articles IV and V); "bottle inspection machines incorporating the teachings of the inventions as defined in applications serial Nos. 741,634 and 808,172" (Article VI).

It cannot be contended that the patent applications referenced in the "Whereas" clause in any way define the subject matter of the agreement for then the agreement must fail for indefiniteness, a result to be avoided if possible. If resort is to be made to the applications, does one refer to the drawings, the description, the first claims, the claims added by amendment during prosecution, or the claims of the issued patent? As is shown hereinafter, the claims of the issued '640 patent differ extensively from those first recited in the parent application Serial No. 741,634. Thus one cannot find the subject matter of the agreement in the transferred applications.

Turning to the critical phrase "will not enter into competition with Meyer", the words "compete" and "competition" are defined by Webster's Seventh New Collegiate Dictionary, 1965, in the following manner:





Compete. . .to vie with another for or as if for a prize.

Competition. . .1: the act or process of competing; rivalry. 2: a contest between rivals; also: the person competing. . . 3: the effort of two or more parties to secure the business of a third party by offer of the most favorable terms. . .

S. Chesterfield Oppenheim in his book, Federal Anti-Trust Laws, 1959, p. 65, defines "competition" in a realistic sense as: "The self-interested and independent rivalry of two or more private competitors."

Thus, according to Article XIV, IDC was bound not to impose any independent and self-interested rivalry with Meyer. This condition was to prevail in "the sale and manufacture of bottle inspecting machines."

Assuming for the moment, but not conceding, that the Trial Court's position is correct that "bottle inspecting machines" means that apparatus disclosed in the patent applications enumerated in the "Whereas" clause, then IDC would, according to Article XIV, be restrained from presenting an independent and self-interested rivalry with Meyer in the sale and manufacture of machines shown in the patent applications. Such rivalry could arise by IDC's manufacture or sale of machines substantially identical to the ones shown or disclosed in the patent applications; or, by its manufacture or sale of a machine substantially different than the ones shown or disclosed in the patent applications, but performing the same function; or by its manufacture or sale of an unpatented machine for performing the same function.





The interpretation that Article XIV prohibits IDC only from selling or making a machine identical to the one shown in the patent applications results in Article XIV being purely redundant and mere surplusage, an effect that the Trial Court was not at liberty to cause. This result would be clearly reached under the Trial Court's interpretation for Article V. B. of the Patent Transfer Agreement provides:

B. After commencing the manufacture of the bottle inspecting machines, Meyer will have the sole right to make such machines and also the sole right to sell such machines,. . .  
(Ex. 8)

The prohibition against making identical machines within the scope of Article XIV would also be redundant for the reason that when the subject patent applications issue into patents, selling a substantially identical machine would of course be an infringement thereof. This, coupled with the estoppel of validity attaching to the patent transfer, would prevent IDC from making, using or selling such an identical machine.

Turning finally to the phrase "during the life of this agreement" set forth in Article XIV, the Trial Court properly concluded that the meaning of the phrase is as set forth in Article XIII (Finding of Fact No. 15, R. 1824). Thus, the life of Article XIV was to be a period of seventeen years plus the pendency period of the subject patent applications.

The clear thrust of Article XIV is to prevent IDC from manufacturing machines, not **only** identical with those shown in the subject patent applications, but which are competitive with



such machines, for a period of approximately 22 years. Yet, contrary to the terms employed by the parties, the Trial Court concluded that: (1) since Article XIV refers only to machines covered by the subject patent applications, the whole of Article V. B. was but a mere redundancy not altering the meaning of Article XIV; and that, (2) to the extent that the phrase "during the life of this agreement" appears to extend beyond the pendency period of such applications, it is mere surplusage and Meyer extracted protection only during the pendency period. Referring to the latter conclusion, the Trial Court, apparently having difficulty with its plain meaning, concluded that it was merely inartistic. (Finding of Fact No. 15, R. 1823) However, the Trial Court also noted that the Patent Transfer Agreement was a "committee" effort. (Tr. \*729) It would be easier to accept the Trial Court's conclusion of inartisticness had there been but a single person involved in the negotiation and drafting of the agreement. However, it seems virtually beyond the realm of reason that such inartisticness, if that it be, would escape the efforts of a committee dedicated to a common effort.

The true scope and intent of Article XIV is accurately reflected in the statements of George L. N. Meyer, Sr., president of Meyer from 1945-1962:

[MR. HORN]

Q. And in particular, I would like to ask you, sir, with reference to the paragraph for the item numbered five and ask you what you meant by the words that appear there, namely, 'agree not to compete'.



A. If we purchases the patent, we felt that neither Industrial Dynamics nor the people concerned should compete with us on the machines that we -- machine that we bought and paid for.

Q. Could you expand on that in this regard, do you mean by that they ought not to be able to compete with you by reproducing and offering for sale this same machine that you were buying or one similar to it.

(exchange between attorneys omitted)

A. One similar to it. For the purpose of examining empty bottles with particles in them.

Q. Let me further ask you in this regard, whether you were interested in securing from the Calhoun people an agreement not to manufacture an empty bottle inspection machine that worked on a principle different from the then design of the machine that you and your son inspected?

A. Well, I would say that I think this was in our minds. We are dealing with people we knew nothing of. We knew nothing of the caliber of the people behind Industrial Dynamics. They were strangers to us. If they are holding back ideas at the time they sold this, there would be no sense of buying the patent if they had something they were going to come out with which would throw this out of the window.

Q. In this regard, were you also concerned with that which they might yet design, which they might not as you put it, be held back?

MR. BECKWITH: Do you understand that question: I object to it.

MR. HORN;

Q. Were you concerned, Mr. Meyer, with securing an agreement from Mr. Calhoun and his associates from manufacturing and offering for sale an empty bottle inspection machine which was different from that described in the





patent applications in question, which they had not yet thought of but which they might later think of?

(exchange between attorneys omitted)

A. Well, I think we felt that they shouldn't compete in the field we were buying the patents in. (emphasis added) (George L. N. Meyer, Sr., Deposition, p. 21, l. 5 - p. 24. l. 16)

Following this answer there was a lunch recess.

Following the recess, Mr. Meyer's answers took on a different color. Later in the day Mr. Meyer testified with respect to the manner in which negotiations were carried on between himself and Mr. Calhoun on the non-compete clause. A relevant extract of Mr. Meyer's refreshed testimony is set forth in Appendix D . Mr. Milton Shapiro, who took part in the negotiations preceding execution of the Patent Transfer Agreement, representing a group of financial investors of IDC, confirmed on deposition that Meyer was seeking to prevent competition from IDC via the inclusion of Article XIV. A relevant extract of that testimony is set forth in Appendix E.

Finally, the plain meaning of Article XIV is borne out by the facts subsequent to the signing of the agreement. Neither IDC (Electro-Dynamics Corporation) nor Calhoun, Browning, or any of the companies with which Calhoun or Browning have been associated, have manufactured or sold a bottle inspection machine for detecting foreign particles since September 21, 1959, (Finding of Fact No. 19, 20, R. 1825), whereas Wyman, not being bound by the Patent Transfer Agreement, has subsequently introduced a competitive machine to the market.





In summary, Article XIV has a plain and simple meaning; that IDC was not to make any machines for performing the function of inspecting empty bottles for foreign particles which were competitive with any such machine made by Meyer, for a period of approximately 22 years, anywhere in the world. This is based upon the clear and necessary relationship of the terms employed by the parties and the subsequent performance thereof by IDC, Calhoun and Browning. To give Article XIV any other meaning than that of a traditional non-compete clause would offend that which naturally flows from the provision. In conclusion, the weight of reason, facts and expectations demand that Article XIV be read simply as a non-compete clause.

2. A Patent Is Misused When The Transfer Of Rights Thereunder Is Coupled With A Non-Compete Clause.

It is important to first define the scope of the patent monopoly granted by Congress. The patent grant is defined by 35 U.S.C. §§ 271(a), 112, which statutes are summarized in the established rule that the claims of the patent define the invention that is protectible. The final element of the lawful monopoly is found in 35 U.S.C. § 283, which provides for an injunctive remedy for infringement.

These three statutory code sections provide that the patent owner has the monopolistic right, in accordance with the principles of equity, to exclude another from manufacturing, selling or using

1. The invention which is defined by the claims of the patent,
2. for the file of the patent.



When the patent owner attempts to broaden the scope of the lawful patent monopoly by soliciting the performance of acts beyond the scope of the statutory grant, he runs the immediate risk of having his patent held unenforceable for being misused.

The doctrine of patent misuse is founded upon deep rooted public policies and equitable principles. It is directly related to the "unclean hands" doctrine, that is, a party seeking the aid of the court of equity must come into the court with clean hands. Morton Salt Company v. G. S. Suppiger Co., 314 U.S. 488 (1942). The clean hands required of a patent owner in a patent case must be viewed against the circumstance that he is exerting a monopoly and requesting the court to grant injunctive relief to enforce this monopoly. Consequently, the patent owner, in conjunction with the court, has the power to eliminate competition, to stop a person from manufacturing a product and to drive a person out of business. The issuance of an injunction in the instant case would have driven SME completely out of business as SME's only product is an empty bottle inspection machine. The court's concern with the public interest in free competition, draped against the extraordinary power and effect of the injunction remedy should therefore not be lightly disregarded.

The doctrine of misuse looks toward preventing public harm rather than being wholly concerned with the individual. The nature of the harm protected against is the unlawful expansion of the patent grant detrimental to the public



titlement to competing devices. McCullough v. Kammerer Corp.,  
6 F.2d 759 (9th Circuit 1948).

Individuals are not by private agreement permitted  
expand the scope of a patent. This was clearly explained  
the Motion Picture case (243 U.S. 502 (1917) ) wherein the  
court stated that the extent of a monopoly assertable through  
the use of a patent is defined and limited by the patent law,  
and the patentee will not be permitted to impose any conditions  
which he chooses upon any use of the patent which he may allow.

In United States v. Univis Lens Co., Inc., 316 U.S.  
1 (1942) Chief Justice Stone further clarified this concept  
stating that the particular form by which the monopoly  
sought to be extended is immaterial. And, more recently,  
the case of Hensley Equipment Co., Inc. v. Esco Corp.,  
3 F.2d 252, 260 (5th Circuit 1967), the court stated:

Pursuant to the [patent monopoly] the  
patentee may exploit his exclusive rights  
as he sees fit, but should his exploitation  
exceed means "normally and reasonably adapt-  
ed to secure pecuniary reward for the [patent]  
monopoly," his actions become subject to the  
same restraints as are imposed upon those  
not protected by patent's monopoly, such as  
the antitrust laws. (citations omitted)

Continuing at p. 261, the court relied upon the Morton  
lt case, supra, wherein Mr. Justice Stone stated:

It is the adverse effect upon the public  
interest of a successful infringement suit  
in conjunction with the patentee's course of  
conduct which disqualifies him to maintain  
the suit, regardless of whether the particular  
defendant has suffered from the misuse of the  
patent. . .The patentee, like those other  
holders of an exclusive privilege granted  
in the furtherance of a public policy, may





not claim protection of his grant by the courts where it is being used to subvert that policy." (emphasis added)

Thus, the rationale for patent misuse is based upon containment of the patent monopoly, avoidance of restraints on free competition and the unclean hands of the patentee viewed in the light of his course of conduct.

- a. The Trial Court Erred As A Matter Of Law In Relying Upon A "Reasonableness" Test To Conclude That The '640 Patent Was Not Misused

Although faced with the clear terms of Article XIV, the Trial Court determined that it was "reasonable" for Meyer to protect its original investment in the patent application during the pendency of such applications, and therefore concluded that the inclusion of Article XIV does not amount to a misuse of the '640 patent. (Finding of Fact No. 14, R. 1823; Conclusion of Law No. 4, R. 1832-1833). Apparently, the Trial Court's preoccupation with the alleged fairness of allowing the holder of a patent application to prevent others from inventing "around that application, or invent[ing] something that would be an improvement upon the device in that patent application" (in short, competing), is the root of the Trial Court's erroneous conclusion. (Tr. \*634). It is strongly urged that the Trial Court's application of the fairness or reasonableness standard to the question of patent misuse is clearly erroneous.

The previously cited authorities make it abundantly clear that it is the expansion of the patent monopoly that the doctrine of misuse is designed to prevent. It seems no less





clear that contractual provisions designed to prevent one from inventing "around [a pending application], or invent[ing] something that would be an improvement upon the device in that patent application" confer upon the promisee an extraordinary power of patent monopoly expansion. There is no legal support whatever for the proposition that where the patent monopoly is so expanded, there will be no misuse if the contractual provision operates fairly or reasonably to the promisee. The doctrine of misuse is not concerned with the particular method by which the monopoly is expanded; if the monopoly is expanded, or one is given the power to expand it, that patent concerned is misused. The doctrine of patent misuse does not recognize the Trial Court's self-developed reasonableness test.

Moreover, the courts have looked at the alleged reasonableness of contractually preventing competition during the pendency of a patent application and have concluded that a contractual prohibition against making, using or selling a device in competition with that shown in a transferred patent application amounts to an illegal restraint on free competition. Ammerhays v. Scheu, 10 Cal.App.2d 574, 52 P.2d 512 (3rd District, 1945).

And finally, the Patent Office has more than adequately protected the patent application owner in the event of infringement or threatened infringement by providing special procedures whereby a patent may be promptly issued in the event that there is an infringing device actually on the market. U. S. Department



b. In View Of The Plain Meaning Of  
Article XIV, Meyer Has Misused  
The '640 Patent

To reiterate briefly, Article XIV provides:

Industrial agrees that it will not enter into competition with Meyer in the manufacture or sale of bottle inspection machines during the life of this agreement.

Such clauses are quite common and have been the subject of much litigation respecting their validity with little, if any, question as to their meaning. In the tabulation set forth in Appendix F, there are a number of non-compete clauses listed together with cases in which they were litigated. All of these cases found the clauses in question to be non-compete clauses in the traditional sense. Of particular note are the McCullough v. Kammerer and Berlenbach v. Anderson and Thompson Ski Co. cases decided by this Court. In all of the cited cases, the clauses involved which were held to be non-compete clauses resulted in the patents being declared misused. From a comparison of Article XIV with such clauses, it can be seen that it is substantially identical with those clauses held to be non-compete clauses and which resulted in misused patents. It is particularly worthwhile to compare Article XIV with the licensee clause in the McCullough case. These clauses are essentially indistinguishable. It is submitted that Article XIV is a typical boiler plate non-compete clause



and should be afforded its plain and simple meaning as a non-compete clause.

The case law applicable to the non-compete clause - misuse question derives from the "licensee-non-compete" cases. In such cases the licensor obtains from the licensee a promise to manufacture only the patented device and to not deal in competitive devices. In these situations, the licensor has attempted to justify this provision by stating that it is a reasonable provision necessary to insure that the patent licensee will fully exploit the patent so that the patent holder receives his just reward for the invention. In response to such an argument, the courts have almost universally held the non-compete licensee provisions to be a misuse. The landmark case in the area is National Lock Washer Company v. George K. Garrett Company, 137 F.2d 255 (3rd Circuit 1943), wherein the court restated the grave public interest in patent matters and the necessity for restricting the patent monopoly to the statutory grant, irrespective of the method employed in attempted expansion.

The foregoing doctrine involving the non-compete licensee has also been applied to the exclusive licensee situation. For example, in Park-In-Theatres v. Paramount-Richards Theatres, 90 F.Supp. 730 (D. Del. 1950), affirmed per curiam, 185 F.2d 407 (3rd Circuit 1950), it was held that a non-compete clause given by an exclusive licensee resulted in a misuse. In reaching this conclusion, the court, relying



upon the National Lockwasher Company case, stated at  
100 F.Supp. p. 735:

. . . [I]t is the tendency of the restrictive covenant in the agreement with which this suit is concerned to restrain potential competition from other non-infringement types of drive-in theaters that brings it into conflict with public policy. (emphasis added)

It is well established that there is very little difference, if any, between an exclusive license arrangement and a transfer arrangement such as embodied in the Patent Transfer Agreement. Such agreement included royalty provisions, termination provisions whereby the patent could revert to IDC, patent prosecution clauses, grant-forward provisions and other provisions commonly found in license arrangements. (Ex. 8)

The Supreme Court held in Waterman v. McKensie, 138 U.S. 252 (1891) that a patent assignment agreement is in substance the same as an exclusive license agreement, and there is no meaningful distinction between the two. Thus, there is no meaningful distinction that can be raised solely because of the differences between a license agreement and the Patent Transfer Agreement.

In comparing the restricted licensee in non-compete cases and the licensor in a non-compete situation, it is clear that a non-competitive restriction imposed upon a licensee has a lesser tendency to discourage invention and research and development than if imposed on a licensor. In most instances,





It is the licensor that is the party with the know-how and ability to invent. If research and development is to be encouraged by the patent law, it is the licensor (the inventor) that must remain free to innovate and compete. Furthermore, in the "licensee situation", there is some scintilla of justification for the non-compete clause with respect to the patent in that it tends to insure that the licensee will exploit the patented device and the licensor will obtain its reward. There is no such justification for including a non-compete clause in the "licensor situation." This reasoning is particularly applicable in the instant case. IDC, Houn and Browning were the designers of the Meyer machine. They were the persons and company capable of research and development. Meyer has maintained that it required the non-compete clause for protection of its investment. It is submitted that the protection which Meyer sought by the non-compete clause was protection from competition.

The courts and writers have concluded that there is no difference or logical basis upon which to distinguish the "licensee non-compete" situation from the "licensor non-compete" situation. In the McCullough v. Kammerer Corp., supra, this Court stated that the licensor's agreement to extend the patent monopoly area by excluding itself from making, using, renting or licensing a competitor's products creates the same prejudice to the public as the restricting agreement with the licensee. Accord: Touchett v. EZ Paints Corp., 150 F. Supp. 384 (E.D. Wis. 1957). From the McCullough case, and



the Scott Paper Company case cited therein, it is clearly seen that it is in the public interest that the licensor be unfettered by restrictions such as non-compete clauses. The import of the policy of leaving the inventor (licensor) free to develop and innovate is succinctly stated in R. Nordhaus and E. Jurow, Patent-Antitrust Law, (1961) at page 8345:

To the extent that an agreement of this character [a non-compete clause restricting the licensor], which is usually coupled with a grant of an exclusive license, prevents a licensor from dealing with unpatented competing goods or processes not covered by the licensed patent, the covenant is wholly outside the scope of the patent grant. This covenant prevents a licensor from acting in fields in which it would otherwise be entitled to act even if the licensee owned the licensed patent outright. Furthermore, it discouraged research, for if the licensor should develop a new invention, it could not be practiced in the event it was competitive to the licensed invention. It should be quite evident that the covenant does not serve in any way to benefit the licensor, but rather serves solely to benefit the licensee through the compete elimination of competition of the licensor. Such an agreement is subject to censure as it is clearly not within the scope of the patent of the licensor.

These established legal principles have been directly applied to the "licensor non-compete" misuse situation in two cases directly on point with the instant controversy. The Court, in the McCullough case, supra, considered the following non-compete clauses:

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement.



12. The Licensor covenants and agrees during the term of this agreement, not to manufacture, sell, rent, license, or use or in any way do business with the device or devices covered by this agreement or petition with the device or devices covered by this agreement.

Article XIV of the Patent Transfer Agreement is virtually identical with the above paragraph 11, and, in substance, identical to the above paragraph 12. This Court stated that these covenants unlawfully extended the monopoly of the licensed patent thereby causing the patent to be misused. Specifically, in considering the effect of the licensor's covenant, this court stated at 155 F.2d 762:

With regard to the licensor's agreement with the licensee to make more certain the licensee's profit by extending the monopoly area by excluding itself from making, using, renting or licensing competitive cutters, such a patent monopoly extension by the agreement of the licensor has the same prejudice to the public as the restricting agreement of the licensee.

This statement has direct application to the instant case wherein the entire company, the transferor (who stands in substantially the same position as a licensor), restricts itself from dealing in competitive devices for a period of approximately twenty-two years (the life of the patent plus the pendency period) in an unlimited geographical area. The public experiences a greater prejudice in this case than that which concerned the court in the McCullough case. Article XIV effectively eliminated IDC, the alleged innovator and creator of the alleged first commercially successful empty





bottle inspection machine, from the field. It discouraged research and development. It enabled Meyer, one of the largest bottle handling equipment manufacturers in the United States, if not the largest, to approach or obtain a monopoly position on another product which forms a part of a bottling line. Thus, the non-compete clause has enabled Meyer to continue to repeat its statement that it is "the only manufacturer of a completely automated and integrated bottling line." (Ex. 35) It is only by the escape of Wyman from the scope of the non-compete clause that Meyer was prevented from perpetrating a total and complete monopoly of empty bottle inspection machines. Thus, the public has been greatly prejudiced by Meyer's use of the non-compete clause.

The most recent case dealing directly with the licensor (inventor-patent transferor) non-compete situation is Touchett v. E Z Paints Corp., supra, wherein the court was concerned with the following non-compete clause:

Touchett [Plaintiff] agrees to be precluded from manufacturing or selling or causing the manufacture or sale of any of the items covered by the foregoing patents or of any paint rollers or paint trays substantially similar to the items covered by said patents provided only that Touchett shall be entitled to manufacture such items upon the request and order of the corporation.

The Court in the Touchett case, citing McCullough, concluded that the patents before it were misused. However, it did not apply the consequences of the misuse doctrine against the misuser because the case involved a licensee and licensor controversy with the party least "to blame" for the





misuse being the plaintiff. Therefore, as an equitable proposition, the Court did not impose the doctrine against the plaintiff in favor of the more blameworthy licensee.

As to this aspect of the Touchett case, the instant case is distinctly different. Here, Meyer, the patent transferee, proposed the non-compete clause and is suing (counter-claiming for infringement) a third party (SME). Meyer is the active party in stifling competition, and it should not be permitted to now further stifle competition.

In summary, the plain and simple meaning of Article XIV is that IDC (and Messrs. Browning and Calhoun via paragraph 4 of the Consultant Agreement) are precluded from competing with Meyer in the manufacture or sale of a machine for inspecting empty bottles for a period of 22 years, in an unlimited geographical area. Thus analyzed, Article XIV unlawfully extends the patent monopoly in two directions:

1. It extends the scope of the monopoly to cover devices outside of the claims of the transferred patent rights, an extension clearly condemned as a patent misuse by the foregoing authorities; and,

2. It extends the period of the non-competition prohibition to include the pendency period of the transferred applications, a prohibition which is not only not provided for by the patent laws, but is, as a matter of law, illegal.

A court of equity should not condone the competition stifling effects of such expansion. The Trial Court clearly erred in failing to conclude that such expansion, under any guise, is a misuse of the related '640 patent.



3. A Patent Is Misused When The Transfer Of Rights Thereunder Is Coupled With A Grant-Forward Clause

Article VIII. A. of the Patent Transfer Agreement

hereafter "Article VIII. A.") provides:

In the event Industrial or its employees during the term of this agreement shall invent or devise any improvement in bottle inspection machines forming the subject of this agreement, it shall promptly disclose the same to Meyer and make such improvements available exclusively to Meyer at no additional royalty. (Ex. 8)

All of the arguments heretofore made with respect to the illegality of non-compete clauses apply with equal force to the foregoing grant-forward clause. A contractual provision whereby the grantee obtains royalty free, exclusive rights in all of the grantor's future inventions in a specific field, or relating to a particular product, effectively eliminates the grantor as a competitor with respect to such product.

The usual situation in the grant of future patent rights pursuant to a patent transfer agreement is one wherein the licensee agrees to license, or to assign back to the transferor, improvement patents relating to the licensed invention. Such clauses are generally referred to as grant-back clauses. The Supreme Court considered such clauses in Transparent-Wrap Machine Corporation v. Stokes and Smith Company, 329 U.S. 637 (1947). In this case, an action for money damages, not equitable relief, the Supreme Court held in a 5 to 4 decision that it was not legal, per se, to require the licensee to so transfer rights in



improvement patent.

The ruling of the Transparent-Wrap case was based, in part, upon the premise that 35 U.S.C. § 261 permits the assignment of patents and patent applications, and consequently the use of one patent to acquire improvement patents is within the statute since the statute does not limit the consideration that may be employed. The Court also indicated that without a showing of lessening of competition, there could be no anti-trust violation (or misuse) in the grant-back situation. The Court, however, did recognize that there is a possibility that the grant-back clause might very well discourage invention and be a contradiction to the patent law and the underlying policy to promote the progress of science and the useful arts. However, in the Transparent-Wrap case, the Court considered that the provision in the grant back-clause before it that the licensee would be free to use the assigned patents without additional royalties would serve the useful function of supplying a market for the improvement patents. Thus, concluded the Court, such a clause was no deterrent to innovation or invention.

The present case is readily distinguishable from that presented in Transparent-Wrap as the clause herein involved is a grant-forward clause as opposed to a grant-back clause.

According to Article VIII.A., IDC is obligated to assign to Meyer, or to make available exclusively to Meyer, without further royalty payment, any future inventions relating to bottle inspection machines for the term of the agreement, a period of





approximately 22 years. Thus, the grant-forward clause approaches assignment of all of IDC's future inventions relating to empty bottle inspection machines for the detection of foreign articles. There is no provision in the patent laws for the assignment of, or the contract to assign, inventions or patent applications not yet in existence. In this sense, the grant-forward provision goes far beyond the scope of 35 U.S.C. § 261. In this case, as opposed to that presented in the Transparent-Wrap case, there is no provision in the Patent Transfer Agreement for IDC's own use of its improvements or inventions; rather, all such improvements or inventions are funneled directly to Meyer. The result of such a clause must of necessity be to discourage invention by IDC. That this in fact has happened is evidenced by the inventions which IDC and Calhoun have made in the empty bottle inspection machine field since the signing of the agreement, as compared with the inventions which Calhoun has proceeded to make in other fields. The Trial Court found that Messrs. Calhoun and Browning, on behalf of IDC, Ltd., have continued to be active in research and development in electronic applications in the package industry. (Finding of Fact No. 21, 1825) Yet, at a time when SME and others have made significant improvements in empty bottle inspection machines, Messrs. Calhoun, Browning and IDC, Ltd. have not produced a single improvement.

While erroneously stated as a finding of fact, the Trial Court concluded that the provisions of Article VIII.A., and its counterpart in the Consultant Agreement, constitute a reasonable





method by which IDC and Messrs. Calhoun and Browning could dispose of improvements on the bottle inspection machine patent. This conclusion is based on the finding that they could not license or assign these improvements to a third party because a third party would be able to manufacture and sell bottle inspection machines coming within the claims of the basic patents owned by Meyer. (Finding of Fact No. 25, R. 1828-1829) Again, it is submitted that the "reasonableness" test is not a proper element in the determination of misuse in view of the obvious expansion of the patent monopoly effected by Article VIII. A. Moreover, it appears that the Trial Court was persuaded into its conclusion of reasonableness based upon Meyer's argument to the effect that it was reasonable to Meyer to receive such improvements royalty free. It is SME's contention that the focal point of the proper inquiry is whether the public interest is benefitted by such provision, not whether Meyer is benefitted thereby. It is submitted that so viewed, the grant-forward provision is not reasonable. Contrary to the Trial Court's conclusion, had Messrs. Calhoun, Browning and IDC been free to undertake further development, improvements would indeed be valuable in the hands of parties other than Meyer. Sales of the underlying bottle inspection machines would clearly be even more "maximized" if the improvements were available to third parties who in turn could use such improvements as leverage to gain cross-licenses from Meyer, thereby widening the scheme of distribution of the underlying machines. Furthermore, such improvement patents in



hands of third parties, as well as in Meyer's hands, would tend to perpetuate the marketing outlets for the underlying machines upon expiration of the basic patents.

Thus, it must be concluded that Meyer was not truly concerned with the alleged protection of sales and royalties of the inventors of such proposed improvements but rather was interested in insuring that Meyer, and only Meyer, obtained the benefits thereof to the exclusion of other competitors in the field. As a result, the instant provisions go far beyond those protected in the Transparent-Wrap case and into the area of conduct amounting to unclean hands and patent misuse which Transparent-Wrap recognized.

C. Meyer Is Guilty Of Unclean Hands With Respect To Its Conduct In Connection With The '640 Patent.

It is well established that the course of conduct in connection with a patent which can lead to patent misuse can take a variety of forms. Activities which have been held to constitute patent misuse include: tying the sale of an unpatented article to that of a patented article; price fixing; exclusive dealership agreements; intentional patent mismarking; charging excessive royalty rates; using the patent to effectively boycott the market; and discriminatory pricing agreements. Cases collected: Shur, Patent Enforcement, Misuse and Antitrust, Chapter III (Lerner Law Book Co., Inc., 1967).

These diversified examples of patent misuse have a common denominator: those benefiting from a patent have conducted themselves in a way which was designed to injure the public by



restraining competition beyond the scope of the patent, by monopolizing or attempting to monopolize a particular market, or by protecting the market in which the patent was effective or discouraging future invention.

In the Morton Salt Company case, supra, the Supreme Court held that a court of equity should appropriately withhold its aid to a patent owner when the conduct involving the patent is contrary to public interest. The issue for the Supreme Court was not whether the defendant was actually injured or whether the antitrust laws were actually violated, or even whether the public was actually harmed. The issue was whether or not the court should come to the aid of a patent owner whose conduct was designed to harm the public.

The equitable doctrine of patent misuse is further emphasized in Kobe, Inc. v. Dempsey Pump Company, 198 F.2d 416 (10th Cir. 1952), when the circuit court held that although one of Kobe's patents was valid and infringed, all of the misconduct that surrounded the Kobe patents would not only render the patents unenforceable but would entitle the defendant to \$500,000.00 in damages. This case is persuasive in that it shows that while each element of a course of conduct, standing alone, may not be unlawful, the unequitable totality of such conduct and its setting is strongly indicative of an unlawful scheme not to be condoned by a court of equity.

1. Meyer's Conduct, As It Affected The Market In Which The '640 Patent Is Operative, Is In Violation Of The Public Interest And Amounts To Unclean Hands.





This Court, acting in equity, must scrutinize Meyer's conduct in the market in deciding whether or not Meyer has the requisite clean hands and is entitled to entertain an infringement suit. The following summary of the facts, set forth in detail at p.13-16 , supra, illustrates that Meyer has pursued a course of conduct in connection with the '640 patent which was designed to restrain competition, discourage inventiveness and monopolize the entire empty bottle inspection machine market.

In 1959, Meyer decided to secure patent applications (one of which resulted in the '640 patent) from IDC, which would give Meyer the right to manufacture and sell what Meyer believed to be the then only commercially acceptable machine for detecting foreign particles in empty bottles. Meyer could have negotiated this purchase in several different ways, but it elected to obtain all of the rights possible. A discussion relating to such acquisitions is set forth in the Encyclopedia of Patent Practice and Invention Management (R. Calvert ed.), at page 50, wherein George E. Frost, the antitrust counsel for General Motors and a leading authority in the field, in an article entitled "Antitrust Law and Patents", states:

In most instances the purchase of patent rights does not bring to a purchaser sufficient market control to raise major problems or a patent of enough importance to alter significantly that market position. Where this is not true, however, consideration should be given to handling the matter in some fashion that does not foreclose continued competitive activity by the seller of the patent. One such way is to acquire a non-exclusive license rather than purchase





the patents. Another procedure may be to purchase the patents with a non-exclusive license back to the seller." (Emphasis added)

Although Meyer was purchasing the patent applications which Meyer believed would have a significant effect on the empty bottle inspection machine market, Meyer did not choose any of the alternatives recommended by Frost. Instead, Meyer chose to acquire the patent rights in a way in which Messrs. Calhoun, Browning and IDC would be prevented from competing in this particular market in the future. This was effected by the inclusion of the non-compete clauses Articles XIV, V and Paragraph 4 of the Patent Transfer and Consultant Agreements, respectively.

In case these two non-compete clauses would be insufficient for Meyer to completely tie up the empty bottle inspection machine field, Meyer also added the right of first refusal and grant-forward clauses in the Patent Transfer and Consultant Agreements, a combination which not only goes beyond the scope of the original patent application but also beyond the scope of the empty bottle inspection machine market to include any invention...relating to electronic applications for the packaging industry,..." (Ex. 8, Article VIII.C.)

It is not difficult to see what plan Meyer was attempting to carry out. If Meyer could secure what at that time, in its judgment, were the only significant patents in the field and at the same time lock up the creative technological talent in this field by consultant agreements with non-compete,



ant-forward and right-of-first-refusal clauses, Meyer would  
ve a monopoly in this particular market for a substantial  
ount of time.

If more proof of Meyer's persuasive plan is necessary,  
ch can be found in a letter of May 5, 1960 from R. E. Antholine,  
officer of Meyer, to Calhoun. (Ex. 28) The letter was sent  
ter Meyer realized that they had encountered their first  
mpetition -- from a machine designed by Wyman. Wyman was not  
compassed within the scope of either the Patent Transfer  
reement or the Consultant Agreement since he had left IDC  
lor to the Meyer patent acquisition.

The letter states:

I am not familiar with the patent situation  
so will not comment as this will have to be  
resolved by the attorneys anyway; but I cer-  
tainly never expected any such development  
from a member of your team at the time we  
began negotiations and note that you will  
prosecute if he is breaching his contract  
or infringing. (Emphasis added)

This letter is extremely significant in that it  
ows unequivocally that Meyer was extremely disappointed and  
parently surprised when they realized that they had a  
mpetitor in the empty bottle inspection market. Apparently  
ver had thought that the result of the negotiations with  
lhoun and Browning was that there would be little chance of  
mpetition in this field from IDC or any of its principal people.  
ce competition was discovered, Meyer and Calhoun sought means  
prosecute Wyman. Meyer and Calhoun considered the Wyman



mination Agreement, broadened an existing patent application, led a broadened continuation application, and filed a new patent application on a stale, only partially conceived idea.

This attitude of Meyer and Calhoun toward eliminating competitors did not end with Wyman. As late as August 12, 1964, Calhoun wrote a letter to Meyer (Ex. 32) which so significantly illustrates their business designs that it must be quoted in detail:

During your recent visit we discussed the Mark IV patent situation...Industrial Dynamics' position, verified at a recent board meeting, on possible infringement of its product by other companies, will be as fast and as ruthless as possible....It is our aim to establish a reputation of attacking anyone as viciously as possible who infringe or possibly could infringe any of our patents... (Emphasis added)

After reviewing the two competitive systems, I think the unit produced by San Marino Electronics falls more nearly within the general scope of the Mark IV claims. The Barry-Wehmiller unit invented by Wyman, though covered in a broader sense, certainly deviates further from our teachings than the San Marino unit. I realize that Barry-Wehmiller is hurting the overall sales picture more than San Marino, but I feel it would probably be wiser to tackle San Marino first while B.W. tries to second guess the next move. This is true for all the following reasons:

\* \* \*

2. San Marino is smaller and financially unable to cope with a court fight;...

3. Crown-Cork represents San Marino and there may be a possibility of scaring them off, if they think that may be involved in a court action on a unit that isn't theirs.

\* \* \*

6. Finally, I think the trend of attacking competitors could be established much cheaper with a higher probability of success... (Emphasis added)





In response to this letter, the president of Meyer  
at the following letter of August 17, 1964 (Ex. 33):

Dear Fred:

Many thanks for your letter of August 12  
re patents. I am glad to see you have altered  
your position somewhat. After our return from  
California, I asked our patent attorneys to  
take action against:

1. San Marino in California
2. Barry-Wehmiller in St. Louis, and,
3. Barry-Wehmiller in England.

I concur that one must use his patents to  
prevent competition or it is useless to obtain  
them. (Emphasis added)

As further evidence of Meyer's illegal web of  
clusivity in the empty bottle inspection market, the Court's  
attention is invited to the only license Meyer has been willing  
negotiate in connection with the empty bottle inspection  
chine patent. This license was to the Mitsubishi Company of  
pan and gave Mitsubishi the exclusive rights to manufacture  
d sell the empty bottle inspection machine in Southeast Asia,  
return for which, Mitsubishi was required to:

1. Not compete with Meyer;
2. Not dispute the validity of any patent issued  
Meyer relating to the licensed empty bottle inspector; and,
3. Advise Meyer of and license, royalty free, all improve-  
nts made on the licensed product. (Ex. 37, 38) Without going  
to further detail, such protection goes considerably beyond the  
aims of the U. S. patent owned by Meyer and further illustrates





ver's monopolistic plan to control the entire empty bottle inspection market.

Being able to exploit a patent monopoly is a grant special privilege. For Meyer, a purchaser, not an inventor, exploit such a monopoly privilege (by maintaining an infringement action against the only two competing manufacturers of empty bottle inspection machines) it must come into court with clean hands. This, indeed, is not the case:

(1) Meyer's conduct was clearly designed to eliminate competition by precluding competition from an entire company (IDC) and specifically Messrs. Browning and Calhoun:

(2) Meyer's conduct was designed to monopolize the empty bottle inspection machine market by attacking "anyone as seriously as possible who infringe or possibly could infringe" the patent and by filing and broadening patent applications on a wide idea to cover competitive equipment; and,

(3) Meyer's conduct injured the public by discouraging future creativity and invention by requiring IDC, and Messrs. Browning and Calhoun to assign to Meyer, royalty-free, any patentable improvements made on the empty bottle inspection machine.

It must be concluded that the Trial Court erred in failing to conclude that the totality of such conduct, perpetrated by the dominant force in the bottle handling field, is flagrantly adverse to the public interest and should, therefore, not be condoned. It must be further concluded that, in view of Meyer's



pansion of the patent monopoly amounting to a misuse of the '640 patent and its unclean hands with respect thereto, the Trial Court erroneously awarded the costs of litigation incident to trial on the misuse issue to Meyer.

Meyer Has Not, And Cannot, Now Purge Its Misuse

The Patent Transfer Agreement was in full force and effect at the time of the filing of the Complaint in this suit and until June of 1966, when the closely related Calhoun (Meyer's only technical expert witness during trial of this controversy) and Meyer entered into an agreement in an attempt to dissipate the effects of Article XIV. On or about June 23, 1966, IDC (which by change of name was then called Electro-Dynamics Corporation) and Meyer entered into an agreement pursuant to which Article XIV was rescinded and declared null and void.

(Finding of Fact No. 11, R. 1822) No attempt was, or has been, made to change, rescind or erradicate the effects of the grant-forward clause VIII.A. The Trial Court concluded that in view of the 1966 agreement, Article XIV cannot presently impair Meyer's right to protect the '640 patent. (Conclusion of Law No. 8, R. 834) Such conclusion is clearly erroneous in view of the established legal principles.

It is submitted that the effect and substance of a non-compete clause which has existed for seven years and has given its beneficiary a seven year period in which to obtain market dominance cannot be eliminated by the act of two "friends" and now mutually interested parties combining to effect the 1966 agreement. The damage to



petition that has been caused over the past seven years cannot be reinstated by so trivial an act. This act by Calhoun and Meyer itself evidences the malum in se nature of the clause.

The Morton Salt case, supra, set down the well established rule that the improper practice forming the basis of patent misuse must be abandoned and the consequences of the misuse must have been fully dissipated before the patent can again be enforced. Accord: Chemical Co. v. Ellis, 314 U.S. 495 (1942).

With IDC out of business and the structure of the bottle inspection machine market fairly well settled, the modification of the Patent Transfer Agreement is meaningless and useless in dissipating the effects of the misuse. At this time, it is noted that life could again be instilled in the defunct IDC. IDC is in a very poor position to reenter the market in view of the relationship between Calhoun and Meyer. Meyer distributes substantially all of Calhoun's products; Calhoun's present company does research and development on such machines for Meyer; and, the grant-forward clause (Article VIII.A.) requires that all of IDC's future inventions be funneled directly to Meyer. Thus, the evils sought to be accomplished by the non-compete clause, coupled with the transfer of the patents in question, has been perpetrated and the modification of the agreement is wholly ineffective to remove the wrong committed. It is, therefore, submitted that the Trial Court clearly erred in concluding that Article XIV cannot presently impair Meyer's right to protect the '640 patent.





The Result of Meyer's Course of Conduct Is The Imposition  
Of Such A Gross Injustice Upon SME As To Warrant An Award  
Of Attorney's Fees

1. An Appellate Court Will Disturb The Lower Court's Conclusion Regarding An Award Of Attorney's Fees In Proper Cases.

It is, of course, well settled that the award of attorney's fees in patent cases is discretionary with the Trial Court. This Court, in the case of Dubil v. Rayford Camp and Co., 34 F.2d 899 (9th Circuit, 1950) stated:

It is not the duty of the reviewing court to interfere with the discretionary power confided to the trial courts by Congress to award attorneys' fees in proper cases except where there is an abuse of discretion amount to caprice or an erroneous conception of law on the part of the trial judge.

[Citations omitted] (Emphasis added)

Thus, it is not only entirely proper for an appellate court to entertain an appeal on the basis of a failure to award attorney's fees or expenses of suit (Duff-Norton Company v. Ratcliff, 362 F.2d 551 (9th Circuit, 1966)) but, in proper cases, to award attorney's fees where the trial court had erroneously failed to do so. Seismograph Service Corporation v. Offshore Raydist, Inc., 33 F.2d 5, (5th Circuit, 1959). Accordingly, it is SME's contention that, based upon an erroneous conception of the law relevant to the instant controversy, the Trial Court abused its discretionary powers in failing to award SME its attorney's fees, thereby committing error rectifiable by this Court.

2. An Award Of Attorney's Fees To The Prevailing Party Is Proper Where The Losing Party Pursued A Course Of Inequitable Conduct

35 U.S.C. § 285 provides that a court, in exceptional cases,





y award reasonable attorney's fees to the prevailing party  
in patent cases.

This Court, in the case of Talon, Inc. v. Union Slide  
Fastener, Inc., 266 F.2d 731 (9th Circuit, 1959), considering  
285, stated that this section, enacted in 1952, adopted the  
language of the repealed 35 U.S.C. § 70, except that the wording  
"exceptional cases" was substituted for "in its the Court's  
discretion." This change was explained by the revisers as  
merely expressing the intent of 35 U.S.C. § 70, as shown by its  
legislative history and as interpreted by the courts. Prior to  
its decision in the Talon, Inc. case, this Court, in the case of  
Mark-In-Theaters, Inc. v. Perkins, 190 F.2d 137 (9th Circuit, 1951)  
considered the proper basis of an award under 35 U.S.C. § 70 and stated:

Congress made plain its intention that such fees  
be allowed only in extraordinary circumstances...  
the exercise of discretion in favor of such an  
allowance should be bottomed upon a finding of  
unfairness or bad faith in the conduct of the  
losing party, or some other equitable consider-  
ation of similar force, which makes it grossly  
unjust that the winner of the particular lawsuit  
be left to bear the burden of his own counsel's  
fees which prevailing litigants normally bear.  
(Emphasis added)

Furthermore, this Court stated impliedly in Daybrite Lighting, Inc.  
v. Ruby Lighting Corp., 191 F.2d 521 (9th Circuit, 1951), in  
reversing the Trial Court's award of attorneys' fees to the  
prevailing party, that such an award can, in proper and  
exceptional circumstances, be based upon a showing of the  
 requisite unfairness or bad faith in the conduct of the losing  
party as well as a specific trial court finding to that effect.



In determining what are and what are not "exceptional circumstances" and whether or not there is "unfairness or bad faith in the conduct of the losing party", the courts while focusing upon the totality of the conduct of the losing party, have based awards of attorney's fees on such conduct as: patent misuse<sup>1</sup>; fraud on the United States Patent Office in patent acquisition<sup>2</sup>; reliance on late presented claims in attempted enforcement of the patent<sup>3</sup>; and other inequitable and unfair practices<sup>4</sup>. It is SME's contention that Meyer's course of conduct, from the time of its acquisition of rights under the patent in suit up through trial on the merits of the instant controversy, encompasses each of these elements. Accordingly, it is submitted that had the Trial Court herein properly applied established legal principles to the evidence before it, it would have, and should have, awarded SME its attorney's fees.

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Talon, Inc. v. Union Slide Fastener, Inc., supra; Clapper v. Original Tractor Cab Co., Inc., 165 F.Supp. 565 (SD Ind. 1958), modified, 270 F.2d 616 (7th Circuit, 1959), Cert. denied, 361 U.S. 967.

Dubil vs. Rayford Camp and Co., supra; Pennsylvania Crusher Co. v. Bethlehem Steel Co., 193 F.2d 445 (3rd Circuit, 1951); Sarkes-Parzian, Inc. v. Philco Corp., 351 F.2d 557 (7th Circuit, 1965); Huff-Norton v. Ratcliff, supra; Stock Equipment Co. v. Beaumont Larch Co., 140 U.S.P.Q. 134 (ED Penn. 1963); Monolith Portland Midwest Co. v. Kaiser Aluminum Corp., 267 F.Supp. 726 (CD Calif. 1967).

Crown Machine and Tool Co. v. KVP-Sutherland Paper Co., 155 U.S.P.Q. 99 (ND Calif. 1967); Oelbaum v. The Lovable Co., 211 F.Supp. 594 (SD N.Y. 1962).

General Motors Corporation v. Cadillac Marine and Boat Co., 226 F.Supp. 716 (WD Mich. 1964); Monolith Portland Midwest Co. v. Kaiser Aluminum Corp., supra.



3. Since Its Acquisition Of Rights In The '640 Patent, Meyer Has Pursued A Course Of Inequitable Conduct Evidencing Such Bad Faith As To Warrant The Imposition Of Attorney's Fees.

a. Meyer Has Misused The '640 Patent And Is Guilty Of Unclean Hands In Connection Therewith.

The question of Meyer's misuse of the '640 patent and its unclean hands with respect thereto has been exhaustively treated hereinbefore. In view of such discussion, it is submitted that the Trial Court, laboring under an erroneous conception of the law surrounding the doctrine of misuse and unclean hands, erred in failing to find the '640 patent misused, and, thereby, on the basis of the criterion set forth by this Court in the Dubil and Alon cases, supra, abused its discretionary powers in failing to award SME its attorney's fees incident to this litigation.

b. Meyer Committed A Fraud On The United States Patent Office During Prosecution Of Applications Resulting In The '640 Patent.

SME's summary contentions herein are that Meyer perpetrated a fraud on the Patent Office during prosecution of the continuation application resulting in the '640 patent by:

(1) Withholding known prior art from the Patent Office, which prior art was more relevant than that cited by the Patent Office for the point contended, while relying upon features disclosed by such prior art in attempting to distinguish the alleged invention residing in the '640 patent over other prior art cited by the Examiner; and,

(2) Misrepresenting the extent of the alleged commercial success enjoyed by machines corresponding to the teachings of the '640 patent.





This Court, in the Duff-Norton Co. case, supra, indicated that fraud practiced on the Patent Office by withholding own, relevant prior art would be a proper basis for the award attorney's fees in a patent litigation. And further, in the bil case, supra, while remanding the case because the basis the trial court's award of attorney's fees was not clearly stated, this Court indicated that where a patent was granted upon material misrepresentations made to induce issuance thereof, such fraud would be a sufficient basis for the award of attorney's fees incident to litigation of such patent.

Turning to the instant controversy, the Trial Court concluded that on each of the foregoing contentions, Meyer is not perpetrated a fraud on the Patent Office. (Conclusion of No. 14, R. 1956-1957) It is submitted that in view of the evidence before the Trial Court, the Trial Court misapplied established legal principles controlling determinations of fraud on the Patent Office and therefore erred in reaching its conclusion.

It is well established that fraudulent or inequitable conduct with respect to proceedings before the United States Patent Office is not to be condoned. Although not uniform of development, the principles of application of the equitable doctrine of fraud to patent matters have been clearly refined. It is submitted that, contrary to the erroneous conclusion of a few courts, the equitable doctrine of patent fraud is not that of the classic fraud, wherein reliance on a given





misrepresentation is a necessary element, but rather is focused upon the totality of an applicant's conduct as opposed to any single misrepresentation upon which the Patent Office may have relied in issuing the patent. The patent monopoly is of such grave importance that one who has demonstrated a lack of good faith or inequitable conduct in the acquisition of a patent should not be allowed the monopolistic benefits thereof. Indeed, this approach has been accepted and stated by the Supreme Court of the United States in the case of Precision Instrument Mfg. Co. v. Automotive Maintenance Machine Co., 324 U.S. 806 (1945). In that case, wherein the plaintiff sought to enforce a patent, the rights to which they had purchased with full knowledge that the applicants therefor had falsely stated the dates of their conception, disclosure and reduction to practice, the Court states:

The guiding doctrine in this case is the equitable maxim that 'he who comes into equity must come with clean hands.' This [doctrine] is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequity and bad faith relative to the matter in which he seeks relief...this maxim necessarily gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant. It is 'not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.' (Citations omitted)

Accordingly, one's conduct need not necessarily have been of such nature as to be punishable as a crime or as to justify legal proceedings of any character. Any willful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for invocation of the maxim.



The far reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct.  
(Emphasis added)

The requisite inquiry imposed by the Precision case is clearly directed to the question of whether or not this particular patentee has done all he can to insure that the public is not saddled with a monopoly unfairly or inequitably acquired.

It is well established that the practice of fraudulently withholding anticipatory prior art is to be condemned. Every applicant is under the clear duty to come forward with known relevant prior art during prosecution of his application when the Examiner fails to bring forth the same or equivalent art. A violation of that duty is a fraudulent practice. United States v. Standard Electric Time Co., 155 F.Supp. 949 (D.Mass. 1957), appeal dismissed, 254 F.2d 598 (1st Circuit, 1958); Admiral Corp. v. Zenith Radio Corp., 296 F.2d 708 (10th Circuit, 1961). With regard to the instant controversy, SME contends that Meyer has not only disregarded its duty to come forward with known prior art but, in addition, has clearly misrepresented its position with respect to such prior art.

The more recent cases of Triumph Hosiery Mills, Inc. v. Alamance Industries, Inc., 191 F.Supp. 652 (ND N.C. 1961), affirmed in part and reversed in part, 299 F.2d 793 (4th Circuit, 1962), cert. denied, 370 U.S. 924 (1962) and Minnesota Mining and  
71.



Fig. Co. v. Projection Optics Co., Inc., 256 F.Supp. 354 (WD N.Y. 1966), have considered the question of withholding prior art and material misrepresentations as fraudulent practices upon the Patent Office. In the Triumph Hosiery Mills case, an action for declaratory relief, the trial court struck down the patent in suit because the defendant knew of the similarities of their alleged invention and the uncited prior art, yet pointed out the same points of their invention as different from other prior art. The trial court concluded that nondisclosure of the pertinent art was fraudulent. In support of its holding, the trial court relied upon Armour and Co. v. Wilson and Co., 168 F.Supp. 353, 359 (ND Ill. 1958), affirmed in part, reversed on other issues, 274 F.2d 143, (7th Circuit 1960), wherein that court stated, "The patent was secured after furnishing the Patent Office with false and misleading evidence and statements, and this invalidates the...patent." Although the appellate court in the Triumph Hosiery Mills case reversed the findings of fraud, the appellate court's decision may be distinguished from the instant controversy. That appellate court found:

(a) That testimony by the defendant's attorneys that the uncited art was, in fact, brought to the attention of the Patent Examiner was improperly excluded from the trial; and,

(b) The appellate court considered the sum of the cited art equivalent to that art which was not cited, a finding clearly contrary to the findings of the Trial Court herein. Finding of Fact No. 11, 15(a), R. 1942, 1944)





In like manner, the court's reasoning in the Minesota Mining and Mfg. Co. case is most persuasive. Again, the trial court struck down the patent in suit for the applicant's failure to come forward with known prior art. In holding the patent unenforceable because of the plaintiff's inequitable conduct, the court reasoned thusly: the state of the art was not made known to the Examiner when the inventor was attempting to show his discovery; the very feature urged so strenuously to the Patent Office as a distinguishing feature over the prior art was a feature clearly shown by the withheld art; and when threatened rejection on the basis of the cited prior art, the inventor relied upon the feature shown by the withheld art in order to obtain the patent.

With regard to the instant controversy, SME contends that Meyer has not only disregarded its duty to come forward with known prior art but, in addition, has clearly misrepresented its position with respect to such prior art thereby, in accordance with the foregoing authorities, committing fraud upon the Patent Office.

The file history of the continuation application, prosecuted by the attorneys representing Meyer in the instant controversy on behalf of Meyer, is replete with arguments that the invention described therein embodies a "centered [optical scanning] system". During prosecution of the application, Meyer distinguished such embodiment from prior art cited by the Examiner by stating that the scanning systems taught by the cited Stoa





patent No. 2,636,602 is "contrasted to the centered system disclosed and claimed by applicant..." (Ex. 41, p. 396) While it appears to be true that Stoate '602 does not teach the centered system, a British patent issued to the same Stoate, No. 517,229, accepted January 24, 1940, does so teach. The Stoate '229 patent was known to Meyer during the course of the proceedings before the Patent Office while Meyer was arguing that the centered optical system was an important and novel part of the invention disclosed and claimed by Meyer and that Meyer was the first to include the centered optical system for the bottle inspection machine disclosed and claimed by Meyer. (Finding of Fact No. 15(a), 1944; Tr. 2669-70) The Stoate '229 patent was brought to Meyer's attention during prosecution of a foreign counterpart of the '640 patent before the patent office of Great Britain.

Turning to another concept of withheld prior art, Meyer's knowledge of the prior employment of Messrs. Calhoun and Williams is particularly relevant to Meyer's bad faith or inequitable conduct in failing to come forward with known prior art. The file history of the continuation application contains lengthy arguments wherein the Examiner contended that Macleish patent No. 2,931,912, in combination with Stoate '602, constituted anticipatory prior art in the use of the inspection principles disclosed by the patent in suit. Meyer argued that the Macleish '912 patent is not relevant to empty bottle inspection machines and that the combination was not anticipatory. Macleish '912 teaches the use of scanning discs (reticles) and



ght energy sensitive discriminating systems for use in tracking guided missiles. The Examiner argued that the use of the equivalent of the Macleish of the '912 scanning system in an empty bottle inspection machine, in combination with the Stoate '02 disclosure, even though different in application, would be obvious. (Ex. 41, p. 378) While arguing that such an application was not obvious, Meyer failed to disclose that both Calhoun and Williams were intimately familiar with similar missile tracking, guidance and scanning systems.

In view of the above circumstances, it is difficult to imagine that Meyer's failure to come forward with this knowledge is anything short of bad faith or inequitable conduct. However, without rendering a relevant finding as to the prior technical knowledge and employment of Messrs. Calhoun and Williams, the Trial Court concluded that Meyer's attorneys were not, at the time of the foregoing argument, convinced that the Stoate '229 patent actually disclosed a centered optical system, and that Meyer did not practice any fraud by any failure on its part to call the Stoate '229 patent to the attention of the Patent Office. (Finding of Fact No. 15(a), R. 1945) It is SME's contention that the foregoing conclusion is clearly erroneous. There was no evidence before the Trial Court even tending to prove that Meyer's attorneys were not convinced of the true disclosure of the '229 patent. It is submitted, however, that in reaching such conclusion, the Trial Court placed unwarranted weight on the representation of one of Meyer's attorneys, made in



and not as a witness' testimony, to that effect. (Tr. 2513-2514)  
is not SME's purpose herein to cast doubt upon the credibility  
of Meyer's attorneys; however, such representation cannot be  
allowed to stand as the sole support for the Trial Court's  
conclusion for the following reasons:

(a) The representation was made without benefit  
of independent corroborating evidence; nor was any offer of proof  
made or suggested by the representing attorney;

(b) Since the representation came from one not  
a witness in the proceedings, SME had no opportunity for examination  
into the factual basis for such representation, a factual basis  
which is peculiarly within the knowledge of the attorney; and,  
perhaps most importantly,

(c) The Trial Court's conclusion is apparently  
based upon the determination that the attorney was not speaking  
in bad faith; a clearly erroneous determination when the  
evidence before the Trial Court, and the established legal  
principles, dictate that the proper inquiry is into the wrongful  
conduct demonstrated by Meyer during prosecution of the continuation  
application and not into the unsupported declaration of Meyer's  
attorney at trial.

Accordingly, in the light of the authorities  
cited and the evidence before the Trial Court, it is contended  
that Meyer's failure to come forward with known anticipatory prior  
art, amplified by Meyer's misrepresentation of its position with  
respect to such prior art, constitutes such fraudulent or





equitable conduct as to warrant the award of attorney's fees  
SME. In additional support of this contention, it is  
submitted that the court's perspective in the Stock Equipment Co.  
case, supra, is most persuasive. That court stated at 140  
S.P.Q., p. 137:

But whether [the patentee's] Patent Office activities were motivated by a deliberate desire to deceive, or are assessed in a more charitable light, is not too important. Whatever be the true reason, it is fair to conclude that the...patent would not have issued if the Patent Office had been apprised of defendant's earlier valve. Even though [the patentee] be given the benefit of the doubt, the fact remains that the trouble and expense which defendant has been put to in defending the present suit has been the result of [the patentee's] inexcusable conduct in his patent prosecution.

While the Stock Equipment Co. case dealt with slightly different knowledge by the patentee, the thrust of the court's reasoning nevertheless remains applicable to SME's contentions. In view of Meyer's reliance on the "centered system" and DC rejection concepts during prosecution, the Examiner's rejection arguments, and the Trial Court's determination as to the anticipatory nature of the Stoate '229 patent, it is fair to conclude that the '640 patent would not have issued had the '229 patent not been withheld. Thus, SME would not have had to bear the burden and expense of defending against the ill-gotten '640 patent. SME should not now be required to bear that burden.

In the continuum of its inequitable and bad faith conduct before the Patent Office, Meyer, in an attempt to favorably resolve the close question of novelty, and hence





tentability, misrepresented the extent of the commercial success enjoyed by machines corresponding to the invention allegedly defined by the '640 patent.

On but a brief review of the file history of the '640 patent, it should be clear to the Court that the question of invention and patentability was extensively argued during prosecution of the continuation application; the patent being granted only after Meyer filed a notice of appeal and an appeal brief with the Board of Patent Appeals.

In an effort to sustain its contention of novelty of the invention, Meyer represented to the Patent Office in an amendment to the continuation application dated December 26, 1962, that "Applicant's system has been installed in most of the bottling plants of the United States and has been operating successfully for an extended period of time." (Emphasis added) (Ex. 41, page 397) In fact, only four or five of the Mark II empty bottle inspection machines were ever sold. (Tr. 967) Admittedly, more than four or five of Meyer's Mark IV machines, those machines incorporating the improvements of Meyer's '666 patent, were sold. However, even if it be conceded that Meyer's allegation of commercial success before the Patent Office is to be interpreted as including sales of Meyer's improved Mark IV empty bottle inspection machine, it is contended that such allegation of commercial success is still false and misleading. Royalty report No. 6, dated January 9, 1963, from Meyer to Electro-Dynamics Corporation (successor to IDC) (Ex. 60) discloses that as of



September 31, 1962, only 406 of the Mark IV empty bottle inspection machines were sold. According to statistics released by the United States Department of Commerce, there were, in 1963, 8,746 establishments primarily engaged in bottling fluid milk and cream, soft drinks, and all kinds of malt liquors, in the United States. It was stipulated that of these 8,746 establishments, only approximately 7,500 of them would be equipped to utilize the Meyer machine. (Tr. 971, 1025-1026)

Presented in a light most favorable to defendant, i.e., that each Meyer's sales represents installation in a different bottling plant, the foregoing sales and census figures indicate that less than .07% of the bottling plants in the United States purchased the Mark II machine and that less than 6% of the bottling plants in the United States purchased the Mark IV machine. It is readily seen that Meyer's sales figures do not represent sales in "most" of the bottling plants in the United States. Meyer attempted to rebut the damaging effects of the foregoing comparison with Calhoun's testimony to the effect that counsel preparing the amendment should probably have stated that "applicant's system has been installed in the plants of most of the bottling companies in the United States". SME's only response to such attempted rebuttal is that since the amendment in question, and its contents, are presumably the result of facts related by Calhoun, Calhoun cannot now be heard to justify that which was misrepresented before the Patent Office.

It is SME's contention that the misrepresentation



the Patent Office concerning the commercial success of apparatus allegedly corresponding to the teachings of the patent sought amount to precisely that type of inequitable or fraudulent conduct clearly condemned by the Precision Instrument Mfg. Co. v. Triumph Hosiery Mills, Inc., cases, supra. The conclusion is inescapable that Meyer, a leader in the field of manufacture and sales of equipment relating to the bottling industry, must have known that its sales figures did not represent sales to "most" of the bottling plants in the United States.

It is well settled that evidence of commercial success is useful only to buttress an otherwise weak showing of invention or novelty. However, where, as in the instant controversy, the patent Examiner has argued strenuously against the issuance of a patent on the basis of lack of invention, the achievement or non-achievement of the commercial success of the invention ascribed may well be a critical issue. It must be assumed that Meyer's allegation of commercial success was designed to meet this specific objection of the Examiner, else such allegation would be meaningless and superfluous. It must also be assumed that Meyer was aware of the foregoing statistics. The inescapable conclusion is that Meyer intentionally misrepresented the commercial success of the machine allegedly corresponding to the teachings of the patent sought, in order to gain issuance of the patent -- a course of conduct clearly fraudulent or inequitable.

In connection with the question of Meyer's sales, it is to be noted that early in 1958 the first Mark II machine was





ld. Thereafter, later in 1958, the Mark IV machines were sold  
IDC. It was not until October 5, 1960, the filing date of  
e continuation application, that those claims, upon which  
yer has relied and contends define invention, were first  
esented to the Patent Office. As is required, Meyer submitted,  
th the continuation application, an oath that it neither knew  
r believed that its invention had been in public use in the  
ited States for more than one year prior to filing its patent  
plication. SME contends hereinafter that the claims contained  
the continuation application should be accorded a filing date  
earlier than October 5, 1960. Viewed in this light, SME  
erefore contends that the filing of Meyer's oath also amounts  
a fraud on the Patent Office. Walker Process Equipment, Inc.  
Food Machinery and Chemical Corp., 382 U.S. 197 (1965).

While nevertheless maintaining that each of the  
regoing contentions is individually sufficient to sustain the  
quisite showing of Meyer's bad faith and unfair conduct in  
quiring the patent in suit, SME contends that the primary focal  
int should be the totality of Meyer's conduct during the  
osecution of the continuation application. Precision Instrument  
Manufacturing Co. v. Automotive Maintenance Machine Co., supra;  
Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.,  
supra; Monolith Portland Midwest Co., supra. As indicated in  
e Precision case, the public has such a great interest in  
tent matters that it would be grossly unjust to not only saddle  
e public with a monopoly obtained as a result of manifest bad



faith and inequitableness, but to also require SME to bear the burden of its expenses in defense against a patent wrongfully required by Meyer.

It is difficult to imagine a course of conduct more inequitable than that of Meyer in the instant case. In the face of the duty to come forward with known relevant prior art, so explicitly set forth by the authorities, Meyer not only disregarded its duty but intentionally misrepresented its position with respect to such prior art -- a practice specifically struck down in the Minnesota Mining & Mfg. Co. case. Further, when faced with specific objection by the Examiner, i.e., lack of invention, to the issuance of the patent in suit, Meyer grossly overstated the commercial success of its machine. With regard to the oath of non-sale within one year of the continuation application submitted by Meyer, the implication is clear -- the patent in suit would not have issued without such an oath.

There was no evidence before the Trial Court to support that court's conclusion that Meyer's attorneys were not convinced of the relevancy of the Stoate '229 patent. The Trial Court amply stated the relevance and anticipatory nature of such patent. There was no evidence before the Trial Court adequately justifying Meyer's misrepresentation of commercial success. It is therefore submitted that, in relying upon the asserted good faith of Meyer's attorneys' representation in open court to the apparent exclusion of all else including Meyer's knowledge of the Stoate '229 patent, the Trial Court, laboring under an erroneous



ception of the law, clearly erred in failing to find that  
yer had, in fact and law, perpetrated a fraud on the Patent  
fice. Accordingly, it is contended that such fraud and  
equitable conduct by Meyer as should have been properly found  
arrant an award of attorney's fees to SME in accordance with  
e cited authorities.

- c. At Trial, Meyer Relied On Claims That Are Invalid Because  
They Were First Presented To The Patent Office More Than  
One Year After A Public Use And Sale, Or After The  
Intervention Of An Adverse Public Right.

In view of the criterion for the proper award for attorney's  
es set down by this Court, it is SME's contention herein that  
yer's reliance on late presented claims in its attempted  
forcement of the '640 patent is, by itself, and in conjunction  
th the remaining elements of Meyer's course of conduct, an  
ceptional circumstance amounting to an inequitable imposition  
such force as to make it "...grossly unjust that... [SME]...  
ar the burden of [its] own counsel fees...." Park-In Theaters,  
c. v. Perkins, supra. Accord, Oelbaum v. The Lovable Co.,  
supra; Crown Machine and Tool Co. v. KVP-Sutherland Paper Co.,  
supra.

Based upon its prior conclusions with respect to the  
lidity of the '640 patent, the Trial Court below did not rule  
on SME's contentions that the claims thereof at issue, Claims  
through 15, 17 through 24, inclusive, are invalid because they  
re filed more than one year after public use began. (Conclusion  
Law No. 17, R. 1957) As will be set forth hereinafter, the  
ial Court did have before it evidence and the arguments of





counsel sufficient to sustain SME's contentions. It is submitted that the Trial Court should have ruled upon SME's contentions and, further, that it is proper for this Court to entertain such contentions on appeal.

Admittedly, the Trial Court was under no binding duty to rule upon the question presented, nor is this Court subject to any such rule. However, relying on the grave import of patent matters in view of the public interest therein, this Court, in the case of M.O.S. Corp. v. John I. Haas Co., Inc., 375 F.2d 614 (9th Circuit, 1967), addressed itself to a directly analogous proposition. In that case, this Court was requested to review the validity of a patent where that question was litigated, but not decided, in the Trial Court. In choosing to accept the question of validity on appeal, this Court, citing Sinclair and Carroll Co., Inc. v. Interchemical Corp., 325 U.S. 327 (1945), declared that the Supreme Court's admonition that it is the better practice to inquire fully into patent validity should not be lightly disregarded. While we are not here concerned with the question of patent validity as a whole, it is submitted that the declared force of such admonition is nevertheless applicable. The public interest in striking down a patent monopoly acquired and used in bad faith and as an element of a pervasive course of inequitable conduct, such as Meyer has pursued, is of grave importance. It is SME's contention that Meyer's reliance on late presented claims is an element strongly indicative of such bad faith and inequitableness. Furthermore, it is submitted that the Trial





urt's reasoning in the Crown Machine and Tool Co. case, supra, Northern District of California case, on the issue of an award attorney's fees for the illegal enlargement of late presented claims, is most persuasive. It appears to SME that this question is not heretofore been considered by this Court and is of such significance to warrant consideration now.

Turning to the instant controversy, it is well settled that where claims defining a new invention are first introduced to a patent application more than one year after a public use, sale or publication involving such invention, or after the intervention of an adverse public right, such claims are invalid. Muncie Gear Works, Inc. v. Outboard Marine, 315 U.S. 759 (1942); Shriber-Schroth Co. v. Cleveland Trust Co., 305 U.S. 47 (1938); Seltine Research, Inc. v. General Motors Corp., 170 F.2d 6 (4th Circuit, 1948), cert. denied, 336 U.S. 938 (1949); Wanz v. Celeste Fur Dyeing and Dressing Corp., 156 F.2d 510 (2nd Circuit, 1946), cert. denied 329 U.S. 736 (1946); Chicopee Mfg. Corp. v. Kendall Co., 228 F.2d 719 (4th Circuit, 1961), cert. denied, 368 U.S. 825 (1961). As stated by the Supreme Court in the Muncie Gear case, such invalidating rule is based upon the theory that a patentee will not be allowed to rely upon claims first presented to the Patent Office, by amendment or otherwise, more than two years (now one year) after a public use or sale of the device covered thereby where such claims define an invention different in essence and scope from that originally disclosed to the Patent Office. In essence, the Supreme Court, and cited cases following the



ancie decision, have held that where the patentee changes the focus of the invention defined by the earlier claims to a new and different focal point in the late presented claims so that the new invention cannot be fully deduced from the earlier disclosure, the later claims will be assigned a filing date as of their date of first presentation; and if such filing date exceeds the period of the statutory bar (now defined by 35 U.S.C. § 102), such claims are invalid.

In determining whether or not the late presented claims define an invention different from that originally relied upon by the patentee, this Court has looked to the scope and essence of the invention as defined by the earlier claims. Pursche v. Glas Scraper and Engineering Co., 300 F.2d 467, (9th Circuit, 1961). It has been clearly established that drawings alone are insufficient disclosure to support the newly asserted invention defined by the late claims. Telechron, Inc v. Parissi, 120 F.Supp. 235 (N.D. N.Y. 1954), affirmed, 229 F.2d 440 (2nd Circuit, 1956); Hazeltine Research, Inc. v. General Motors Corp., supra; Chicopee Mfg. Corp. v. The Kendall Co., supra. And in the Chicopee case, the court held that where a late presented claim has been broadened to the point that, although perhaps including and supported by the narrower teachings of earlier disclosures, it is no longer restricted to those teachings, such claim is invalid.

The Supreme Court in the earlier Schriber -Schroth case, supra, addressed the problem of late presented claims from a slightly different aspect, relying on the principles set forth



in 35 U.S.C § 112. There the Court stated the now accepted rule that a patent application cannot be broadened by amendment to embrace an invention not disclosed in the application as originally filed where adverse rights of the public have intervened, without regard to the statutory bar. There appears nowhere a definition of the phrase "adverse public right" in connection with the late presented claim cases. It is submitted that such phrase has reference to the oft decided proposition that a patentee may not appropriate for his own that which already has become public property. In the Schriber-Schroth case, the "adverse public right" was in an independent third party who developed a device subsequently claimed by the patentee; in the Oelbaum case, supra, such right was found in the alleged infringer.

In view of the cited authorities, it is submitted that the evidence of record before the Trial Court below is sufficient to support SME's contention that the claims at issue of the '640 patent are invalid because:

1. They define a new invention without sufficient prior disclosure; and,
2. They were first presented during prosecution of the continuation application, later than is permitted by 35 U.S.C. § 102 and after the intervention of an adverse public right.

As stated hereinbefore, the '640 patent evolved from the parent application Serial No. 741,634 filed by Messrs. Calhoun, Williams and Wyman, and subsequently assigned to IDC. Subsequent





of the allowance of 14 claims in the parent application, but before issuance of a patent thereon, the parent application and the invention described therein was transferred from IDC to Meyer pursuant to the Patent Transfer Agreement. On October 5, 1960, Meyer, by attorneys representing Meyer in the instant controversy, fully filed application Serial No. 60,753 denominated as a continuation of the parent application. New oaths for the continuation application were executed by Messrs. Calhoun and Williams but not by Wyman; Wyman having contended, upon review of the initial continuation application, that he was not an inventor of the invention defined by the claims thereof. (Ex. 40, p. 40-44, 131) Pursuant to Patent Office proceedings under 35 U.S.C. § 118, Meyer executed a new oath in place of Wyman. (Ex. 41, p.215)

The original continuation application contained 24 claims, the first 14 of which being the allowed claims from the parent application. (Ex. 41, 42) The original continuation application also incorporated verbatim the specification and drawings from the parent application, which specification and drawings remained unchanged and are as set forth in the issued '640 patent. Subsequent to the filing of the continuation application, the parent application was expressly abandoned by Messrs. Calhoun and Williams and Meyer. (Finding of Fact No. 4, R. 1816)



Of the 14 allowed claims of the parent application, six were prosecuted to allowance in the continuation application and resulted in Claims 1 through 6 of the '640 patent; claims which are not in issue in this controversy. One other claim, drawn to the same concept, was cancelled during prosecution of the continuation application. (Ex. 42) Of the remaining seven allowed claims of the parent application (Claims 7, 9 through 11 of the original continuation application) a brief review thereof clearly indicates that the focal point or point of novelty relied upon was a rotatable reticle, or disc, scanning member having a plurality of both opaque and transparent areas alternately disposed. (Ex. 41, p. 17-21). (Original Claim 9 varies somewhat from this pattern by including in the combination, apparatus defining the subject matter of the claims not in issue.) Such focal point is amply evidenced by the applicant's arguments for allowability which related principally to the distinction that no other cited art embodied a rotatable disc having the alternately disposed opaque and transparent areas. (Ex. 41, page 372-373)

By contrast, Meyer has characterized the invention allegedly defined by the '640 patent as a bottle inspection system which combines a centered optical system with a radial scan to provide spatial filtering for the generation of signal components of a particular frequency, or range of frequencies, representing small particles in the bottom of the bottle; electronic circuits for selecting the particular frequency or frequencies representing



articles in the bottom of the bottle; and electronic circuits for detecting direct current at a particular level to reject opaque bottles and bottles with relatively large particles in the bottom of the bottles. (Finding of Fact No. 4, R. 1939)

Of particular import in the foregoing characterization are the phrases "centered optical system", "spatial filtering"; and, "particular frequency or range of frequencies". The term "spatial filtering" does not appear anywhere in the patent application or the file history accumulated pursuant thereto; in the continuation application or the file history accumulated pursuant thereto; or in the issued patent. While acknowledging that the original parent specification contains descriptive reference to the terms "particular frequency or frequencies," and further acknowledging that while the specification of the parent application does not refer to a "centered optical system," the over-simplified drawings appear to indicate a centered system, none of such phrases appear in any allowed claim of the parent application, which claims purportedly defined the true scope of the invention claimed. By comparison, Meyer now insists that the even broader essence of the invention claimed in the '640 patent is the combination of a "centered optical system", "spatial filtering", and "frequency discrimination", elements which have no antecedent support. (See Appellant's brief, Case No. 22592-A)

Turning to Claims 7 through 24 of the patent in suit, i.e., those claims at issue herein, Claim 7 was presented for





first time in the original continuation application; Claims through 11 were first presented by Amendment "A" thereto filed November 15, 1961; Claims 12 through 21 were first presented by Amendment "B" thereto filed December 26, 1962; and Claims 22 through 24 were first presented by Amendment "C" thereto filed April 24, 1963. (Ex. 41; 42, p. 364, 380, 407) Examination of these claims clearly reveals that the entire focal point and conception of the alleged invention has changed considerably over the essence of that invention disclosed in the parent application. The claims at issue have been definitely broadened. (Finding of Fact No. 4, R. 1816) More importantly, such claims introduced, for the first time, new and undisclosed elements or points of novelty.

The claims of the '640 patent may be divided into five groups, which groups exemplify various elements asserted by Meyer to define the true scope of the invention disclosed in the issued patent, which elements were first disclosed more than 10 years following the filing of the parent application. For example, the element of the means or a member for "sequentially and/or cyclicly coupling or scanning" is now recited in Claims 15, 16, 18 and 21 through 23. This element has no antecedent support whatsoever in either the parent application or its file history. Each of the claims of the second group, i.e., Claims 8 through 14, 16, 17, 19 through 21 and 24 purport to define a "centered optical system", a term not found in the parent application yet heavily relied upon by Meyer as a distinguishing





ture during prosecution of the continuation application. In third group of claims, i.e., 7, 14, 18, 20, 22 and 23, there appear the elements of the detection-rejection combination alternating and direct components, or characteristics, of light energy and/or electrical signals indicative of the presence of a particle in the bottle to be inspected, a combination described in the operation of an embodiment in the parent application but not indicated by the claims thereof as being part of, or important to, the invention defined thereby. Similarly, in fourth group of claims, i.e., 10, 11, 19, 20 and 23, the concept of the machine's interest in a particular frequency, or range of frequencies, indicative of the presence of a particle in the bottle to be inspected is first presented, a concept which does not find a counterpart in the definition of the invention as presented in the parent application. And finally, in the fifth group of claims, i.e., 9, 15 through 17, and 19, there first appears the concept of the system reliance upon alternating characteristics, or components, of light energy and/or electrical signals indicative of the presence of a particle in the bottle to be inspected. The heavy reliance placed upon these newly presented elements by Meyer during its prosecution of the continuation application is amply evidenced by repeated distinguishing arguments before the Examiner, which arguments are clearly set forth in the various amendments to the continuation application as presented in Meyer's appeal brief filed with the Board of Appeals. (Ex. 41)



The obvious expansion of the scope of the invention  
ited in the late presented claims over that disclosed in  
parent application must be viewed against uses and sales of  
y bottle inspection machines during the period from the filing  
the parent application to the grant of the '640 patent.

In 1958, subsequent to the filing of the parent  
lication, IDC sold four or five machines, designated Mark II,  
egedly corresponding to the teachings of the '640 patent.  
e in 1958, an improved machine embodying the concepts disclosed  
covered by the '640 patent, went on public sale. In or about  
e of 1960, subsequent to his repudiation of the invention  
ined by the original continuation application, Wyman began  
sell another empty bottle inspection machine, which machine  
admittedly not encompassed within the scope of the invention  
ined by the parent application but which has been subsequently  
lared by Meyer to be within the scope of the claims of the  
0 patent.

Thus, to briefly summarize, the Trial Court was presented  
h evidence establishing the following chain of events:

1. In April 1958, the parent application was filed by  
srs. Calhoun, Williams and Wyman, which application well  
ined an invention the essence of which was the allegedly novel  
ked reticle, or disc, scanning member.

2. In 1958, empty bottle inspection machines were sold  
portedly utilizing and embodying the concepts taught by the  
adened claims of the '640 patent.



3. In 1960, one of the original inventors of the  
ent application developed a different and improved empty  
tle inspection machine and sold the same; such machine,  
lowing its inspection by Meyer, was allegedly encompassed  
hin the scope of the claims first presented in the continuation  
lication.

4. In 1960 and thereafter, a continuation application  
filed by Messrs. Calhoun and Williams and Meyer with  
sequent amendments thereto, containing claims of an  
remely broadened and theretofore undisclosed nature, which  
lication resulted in the '640 patent.

Accordingly, it is contended that the Trial Court should  
e concluded that Claims 7-15, 17-24 of the '640 patent are  
alid in view of the cited authorities. It is further  
tended that Meyer's reliance on such invalid claims in its  
tempted enforcement of the '640 patent is demonstrative  
such gross injustice that SME should not be required to bear  
e burden of its attorney's fees in defense thereof. Since  
e illegal enlargement by Meyer of its continuation application  
has been the keystone..." of Meyer's claim for relief in this  
t, Meyer should pay SME its attorney's fees as contemplated by  
U.S.C. § 285. Crown Machine and Tool Co. v. KVP-Sutherland  
er Co., 155 U.S.P.Q. at p. 329.





d. The Continuum Of Meyer's Bad Faith  
And Inequitable Conduct Warrants An  
Award Of Attorneys' Fees To SME

Meyer's course of conduct as evidenced by the heretofore set forth facts concerning its misuse of the '640 patent, its practiced fraud upon the United States Patent Office and its attempted enforcement of delayed, new claims is found to continue and extend into the proceedings during trial on the issues of validity and infringement of the '640 patent.

During the course of pre-trial proceedings, Meyer pursued a course of delay and harrassment, the necessary result of which was to impose an unreasonable financial burden upon SME. Such course of conduct is exemplified by the unnecessarily detailed and extensive 100 page Pre-Trial Order No. 2 (R. 1687) and the unnecessarily lengthy and detailed discussions between the parties' attorneys in preparation thereof. For example, Article III of such Pre-Trial Order (R. 1688) purports to set forth some 95 admitted facts requiring no proof at trial. However, at Meyer's demand, Article IV of the Order (R. 1714) recites various of Meyer's reservations with respect to such "admitted" facts, which reservations virtually destroy the probative value of approximately one-third of the "admitted" facts. Furthermore, minutely detailed discussions, instigated by Meyer's attorneys and extending over a period of several weeks, resulted in nothing more concrete, in terms of pre-trial agreement on issue framing, than the approximately 279 issues of fact remaining for litigation at trial. (R. 1718-1775).



Meyer's reasons for failure of agreement on and reduction of these issues was nothing more than its desire to maintain its flexibility concerning matters of proof at trial. The obvious result of attempts to maintain such "mobility" is unnecessary delay and consumption of the Court's time in proving matters well within Meyer's and Meyer's attorneys' knowledge.

The culmination of Meyer's expansion of its ill-gotten patent beyond its lawful scope is exemplified by Meyer's attempts to use the courtroom as yet another vehicle for such expansion by employing what may be most favorably termed questionable practices involving strained constructions of the teachings of the '640 patent and evidentiary demonstrations designed to perpetuate such strained constructions.<sup>1</sup>

Equity should not condone Meyer's practices. Following its acquisition of the unlawfully expanded patent, Meyer proceeded to rely at trial, not upon the claims of the patent itself but, rather, upon the testimony of its expert witness (Calhoun) as to what the patent was supposed to teach<sup>1</sup> and such nebulous concepts as "spatial filtering" and "frequency discrimination", which concepts find no explanatory support in either the '640 patent or its file history.

It is submitted that the reasoning of the Court in the Monolith Portland Midwest Co., case, supra, is most persuasive in supporting SME's request for its counsel fees. Therein the

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<sup>1</sup> See Appendices G and H wherein detailed discussions are set forth.



Court found the case to be an exceptional one within the meaning of 35 U.S.C. § 285 where: (1) The patentee's conduct before the Patent Office, taken as a whole, amounted to fraudulent patent acquisition; (2) ". . .the objective of pretrial, to reduce and pinpoint the issues, was not accomplished due to plaintiff's apparent desire to maintain a maximum mobility;" and, (3) the "plaintiff took extreme positions and adopted strained constructions which unduly prolonged the trial." (267 F.Supp. at pps. 786, 787).



## CONCLUSION

The plain and simple meaning of Article XIV of the Patent Transfer Agreement is that of a traditional non-compete clause; IDC was not to make any machines for performing the function of inspecting empty bottles for foreign particles which were competitive with any such machine manufactured by Meyer, for a period of approximately 22 years, anywhere in the world. Pursuant to Article VIII. A. of the same agreement, any improvements on such machines developed by IDC, or any of its employees, were to be funneled directly and exclusively to Meyer, royalty free. Where the contractual restrictions of the Patent Transfer and Consultant Agreements failed to tie-up other competitive creative talent, Meyer threatened such competition with civil litigation, broadened two patent applications, and filed a third patent application and instituted an interference based upon a stale and only partially conceived idea in attempts to eliminate such competition. Such acts and pervasive course of conduct pursued by one having a dominant position within the market place is an unlawful expansion of the underlying patent monopoly, the '640 patent, and, in accordance with established equitable principles, a misuse of the '640 patent.

Meyer acquired the patent in suit by virtue of a series of fraudulent misrepresentations to the Patent Office. The claims of the '640 patent at issue in the instant controversy are late presented, invalid claims defining a new invention over






that originally relied upon. In pursuit of the enforcement of such illegally broadened claims, Meyer adopted even broader, strained constructions at trial in its attempts to stifle yet another competitor. The burden of defending against the ill-gotten and misused '640 patent wrongfully thrust on SME is grossly unjust.

The judgment in favor of Meyer on SME's claims of patent misuse and unclean hands should be reversed.

SME should be awarded its costs incident to trial on the issues of patent misuse and its appeal herein and should be awarded a reasonable attorney's fee for its defense against Meyer's suit for patent infringement.

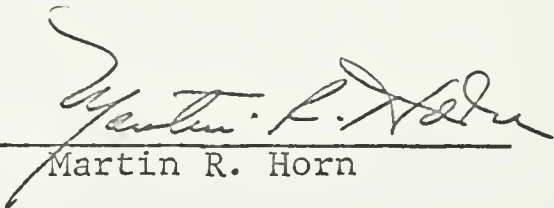
Respectfully submitted,  
SPENSLEY, HORN AND JUBAS

By:   
Martin R. Horn  
Attorneys for Plaintiff-  
Cross-Appellant



CERTIFICATE


I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with those rules except as to deviations therefrom authorized by Order of the Court.

  
\_\_\_\_\_  
Martin R. Horn



AFFIDAVIT OF SERVICE

The undersigned hereby certifies that three (3) copies of the within Brief were this 11th day of June, 1968, served upon Ellsworth R. Roston, Esq. of Smyth, Roston and Pavitt, Attorneys for Cross-Appellee, by enclosing the same in a postpaid wrapper addressed to said attorney at Suite 320, 4262 Wilshire Boulevard, Los Angeles 5, California, and depositing the same in the United States mail.

  
\_\_\_\_\_  
Martin R. Horn





## FINDINGS OF FACT AND CONCLUSIONS OF LAW

DINGS OF FACT: R. 1813-1837

1. Plaintiff is a corporation organized and existing under the laws of the State of California, having its principal place of business in El Segundo, California, which is within the jurisdiction of this Court. Plaintiff manufactures two types of machines that inspect empty bottles for the presence of foreign particles, known as the Model 303 and the Slimlight.

2. Defendant is a corporation organized and existing under the laws of the State of Wisconsin, with its principal place of business in Cudahy (Milwaukee County), Wisconsin. Defendant maintains an office in the City and County of Los Angeles, California, within the jurisdiction of this Court. Defendant manufactures, among other things, a line of machines for handling, filling, inspecting, filling, closing, labeling and packing various metal, glass and plastic containers, along with other types of equipment used in connection with the packaging of liquids or semi-solid substances in glass, metal or plastic containers. Defendant is one of the largest manufacturers of bottle handling equipment in the United States. Defendant manufactures and offers for sale a machine to inspect empty bottles for the presence of foreign particles known as its Mark IV Bottle Inspector.

3. Prior to June 12, 1958, Industrial Dynamics Corporation, a California corporation, with its offices and principal place of business in Los Angeles County, California, developed a machine for inspecting empty bottles for the presence of foreign particles. The officers and principal employees of Industrial Dynamics Corporation at the time that the machine was developed were Fredrick L. Calhoun, Donald D. Williams, and James H. Wyman. Subsequently, Abner L. Browning became employed by Industrial Dynamics Corporation and participated in further development of the empty bottle inspection machine.

4. On June 12, 1958, Fredrick L. Calhoun, Donald D. Williams and James H. Wyman filed an application for letters patent of the United States which disclosed a prototype of an empty bottle inspection machine. The patent application received Application Serial No. 741,634 from the United States Patent Office. This application was assigned by the applicants to Industrial Dynamics Corporation, and was prosecuted in the United States Patent Office through allowance. However, before any letters patent issued on application Serial No. 741,634, but after application Serial No. 741,634 was allowed, application Serial No. 60,753 was



ed in the United States Patent Office on October 5, 1960, as continuation of application Serial No. 741,634 and was subsequently assigned to defendant and its prosecution was paid for by defendant, and application Serial No. 741,634 was subsequently abandoned. The specification, drawings and allowed claims of application Serial No. 741,634 were identical in application Serial No. 60,753, but additional and broader claims were set forth in the continuation application Serial No. 60,753. As a consequence of the prosecution of said continuation application Serial No. 60,753 in the Patent Office, United States Letters Patent No. 3,133,640 was granted on May 19, 1964, by the United States Patent Office to defendant as assignee of said application. This is the patent-in-suit. The defendant maintains and asserts that United States Patent No. 3,133,640 is a basic patent.

5. On or about April 22, 1959, Fredrick L. Calhoun and Abner L. Browning, who were then employees of Industrial Dynamics Corporation, filed an application for patent relating to a machine for inspecting empty bottles for foreign particles. This application was designated as Serial No. 808,172 by the United States Patent Office and was assigned by the applicants to Industrial Dynamics Corporation. This application issued as United States Patent No. 3,081,666 on March 19, 1963. Defendant describes its patent as an improvement on its patent No. 3,133,640. While this latter patent was initially involved in this suit, the parties have stipulated to the dismissal of the claim by defendant of infringement with prejudice and the claim by plaintiff of invalidity without prejudice.

6. On or about September 21, 1959, Industrial Dynamics Corporation and the defendant entered into a written agreement consisting of two parts. Pursuant to the first part, which can be described as the Patent Transfer Agreement, Industrial Dynamics Corporation transferred to the defendant all of its right, title and interest in the two patent applications Serial Nos. 741,634 and Serial No. 808,172 which Industrial Dynamics Corporation presented to defendant as covering its machine to inspect empty bottles for the presence of foreign particles. The second part of the agreement of September 21, 1959, consisted of a Consultant Agreement between the defendant on the one hand, and Fredrick Calhoun and Abner L. Browning on the other hand, pursuant to which Calhoun and Browning agreed to act as consultants to the defendant for a limited period of time to facilitate the transfer from Industrial Dynamics Corporation to the defendant know-how relating to the construction and operation of the bottle inspection machine then being manufactured by Industrial Dynamics Corporation, to-wit, the Mark IV machine. On September 21, 1959, Calhoun and Browning were the principal officers and employees of Industrial Dynamics Corporation, Williams and Wyman having terminated their relationship with Industrial Dynamics Corporation some months prior to that time. Neither Williams nor Wyman was a party to the consultant agreement in question.





7. Certain portions of the Patent Transfer Agreement and the Consultant Agreement form the basis for some of plaintiff's claims of patent misuse. Plaintiff relies principally upon Articles V, VIII and XIV of the Patent Transfer Agreement and paragraphs 3, 4 and 5 of the Consultant Agreement. Defendant calls particular attention to the first WHEREAS clause appearing on page 1 of the Patent Transfer Agreement and to paragraph 4 of the Consultant Agreement. Certain of these contractual provisions are quoted below and others are summarized:

From the Patent Transfer Agreement:

WHEREAS Fredrick L. Calhoun, Donald D. Williams, and James H. Wyman, and Fredrick L. Calhoun and Abner L. Browning are the inventors of a machine, hereinafter called a 'bottle inspection machine', which is used to detect and reject bottles coming from a bottle washer which have not been properly washed or which contain foreign matter, for which invention two applications for Letters Patent have been filed in the United States Patent Office on June 12, 1958, and on April 21, 1959, respectively, and which bear the Serial Nos. 741,634 and 808,172, respectively.

ARTICLE V.

A. MEYER will assume responsibility for the manufacture of bottle inspecting machines and will also completely assume the sale and servicing of the bottle inspecting machines forming the subject matter of this agreement not more than six months following the date of the signing of this agreement.

B. After commencing the manufacture of the bottle inspecting machines, MEYER will have the sole right to make such machines, and also the sole right to use and sell such machines, and in so doing, will give equal service rights to machines previously made or sold by INDUSTRIAL, at INDUSTRIAL's expense, and it is agreed that MEYER shall have the right to deduct from royalties accruing hereunder or from any other sums owing INDUSTRIAL by MEYER, MEYER's reasonable service charges and the costs of any adjustments made or incurred by MEYER in the servicing of such machines, which charges and costs are not properly collectible (sic) from the owner of said bottle inspecting machine.

\* \* \*



## ARTICLE VIII.

A. In the event INDUSTRIAL or its employees during the term of this agreement shall invent or devise any improvement in bottle inspection machines forming the subject of this agreement, it shall promptly disclose the same to MEYER and make such improvements available exclusively to MEYER at no additional royalty.

B. MEYER may elect, if such improvement is of a patentable nature, to file applications for patent at its own expense based upon such improvements and in such event, all patents granted thereon shall be the sole and exclusive property of MEYER. Notice of such election must be made prior to the expiration of ninety (90) days from the date such improvement is fully disclosed to MEYER by INDUSTRIAL. Upon receiving notice that MEYER does not elect to file an application for patent on said improvement, or upon the elapse of said ninety (90) days without receiving the notice of election from MEYER, then INDUSTRIAL may, if it desires and without being required to do so, file an application for patent. Ownership of the improvement, in the event of such filing, will be in INDUSTRIAL. However, INDUSTRIAL shall grant MEYER a non-exclusive, royalty-free license to make, use and sell said improvement.

C. INDUSTRIAL agrees to promptly and fully disclose and offer to MEYER any invention which INDUSTRIAL may devise, own or control during the life of this agreement relating to electronic applications for the packaging industry, and to inform MEYER of the terms and conditions of such offer, and MEYER shall have ninety (90) days following the receipt of such offer in which to accept or reject the same. In the event MEYER rejects the same, INDUSTRIAL shall have the right to secure bona fide purchase or license offers from other manufacturers for such invention. INDUSTRIAL shall give MEYER written notice with full particulars of any such offer secured by and acceptable to INDUSTRIAL and MEYER shall have sixty (60) days following receipt of such notice to meet such offer, and in the event MEYER does not elect to meet such offer, INDUSTRIAL shall have the right to accept the same.

\* \* \*





### ARTICLE XIII.

Unless sooner terminated under Article X, this agreement shall continue in force to the end of the term of the last to expire of any United States Letters Patent obtained for either application Serial No. 741,634 or application Serial No. 808,172 or, in the event no such Letters Patent are obtained, then the term of this agreement shall end at such time as the claims of these applications, or continuations, or divisions thereof are finally rejected and the time for appeal has elapsed without further appeal being taken, or if further appeal has been taken, then when such appeal has been denied.

### ARTICLE XIV.

INDUSTRIAL agrees that it will not enter into competition with MEYER in the manufacture or sale of bottle inspecting machines during the life of this agreement.

#### m Consultant Agreement:

#### 4. AGREEMENT NOT TO COMPETE.

Consultants agree that for a period of three years after completion of their services under this agreement, they will not, jointly or severally, enter into the employ of any person, firm, corporation or other organization or themselves engage in business when such employer, employment or business shall be in any way in competition with MEYER in its manufacture or sale of bottle inspection machines as defined in the agreement between MEYER and INDUSTRIAL.

#### 5. RIGHTS OF FIRST REFUSAL.

A. Consultants agree, jointly and severally, that if they shall during the aforesaid three-year period make or conceive any invention or improvement, which if made or conceived by them during the period of their services under this agreement they would have been obligated to assign to MEYER pursuant to paragraph 3 above, then in such event they shall first offer such invention or improvement to MEYER on reasonable terms. MEYER must within 30 days notify Consultants whether or not they will accept the offer. If MEYER declines the offer or does not reply within 30 days, Consultants shall have the right to dispose of it to others.



B. Consultants further agree, jointly or severally, that if they shall, during the period of this agreement, make or conceive any invention or inventions relating to electronic applications for the packaging industry, they will first offer such invention or inventions to MEYER on reasonable terms. MEYER shall have 60 days from the date of such an offer to negotiate with Consultants to reach an agreement on price, royalties and other terms and conditions. If MEYER and Consultants fail to reach an agreement in this period, the Consultants may thereafter deal with others on such invention or inventions.

8. Paragraph 3 of the Consultant Agreement provides:

Consultants agree to assign and do hereby assign to MEYER, its successors and assigns, all their rights, held jointly or severally, in and to any and all inventions which they shall make or conceive during the period between the date of this agreement and the termination of their services hereunder which in any manner relate to bottle inspection machines as defined in the agreement between Industrial and Meyer. \* \* \*

9. Article X of the Patent Transfer Agreement provides that the defendant may cancel the agreement after a period of two years.

10. Paragraph 1 of the Consultant Agreement provides that the consultants (CALHOUN and BROWNING) will offer their services to MEYER for a period not in excess of two years.

11. On or about June 23, 1966, Industrial Dynamics Corporation (which by change of name was then called Electro-Dynamics Corporation) and the defendant entered into an agreement pursuant to which Article XIV of the Patent Transfer Agreement dated September 21, 1959, was rescinded and declared null and void.

12. The subject of the Patent Transfer Agreement is "bottle inspection machine" as it is defined in the first "WHEREAS" clause. The Agreement of September 21, 1959, between the defendant and Industrial Dynamics Corporation is directed to specifying the rights and obligations of the parties with respect to these machines; the Agreement is directed to the bottle inspection machines for which two patent applications were filed and referred to in the "WHEREAS" clause quoted in Finding 7. For example, Article IV refers to "bottle inspecting machines" and the subject matter of this agreement" and Article V recites





at defendant "will assume responsibility for the manufacture of all bottle inspecting machines". These references are to machines described in the two patent applications.

13. The machines referred to in Article XIV of the Patent Transfer Agreement are machines for which two patent applications referred to in the first "WHEREAS" clause were filed, and only those machines.

14. The Court is mindful of the fact that Article XIV contains the clause, "INDUSTRIAL agrees it will not enter into competition with MEYER . . . ." Considering that the defendant paid \$75,000.00 at the time the Patent Transfer Agreement was executed, it was reasonable for the defendant to provide protection against competition by Industrial Dynamics Corporation in the manufacture of machines for which the patent applications were filed, during the period between the execution of the Agreement on September 21, 1959, and the issuance of the patents.

15. The Court finds that the use of the phrase "during the life of this agreement" in Article XIV is inartistic but does not alter the Court's above expressed interpretation of that paragraph. The protection of Article XIV was not required after the patents issued. However, the agreement might have been terminated before the last patent was issued, pursuant to Articles X or XIII. The meaning of the phrase "during the life of the agreement" is set forth in Article XIII. The Articles B. and XIV of the Patent Transfer Agreement are redundant, and this does not alter the plain meaning of Article XIV.

16. At the time that the defendant purchased the patent applications from Industrial Dynamics Corporation there was at least one other empty bottle inspecting machine being marketed, the Mayer Twin-Beam. In addition, there was a full bottle inspection machine being offered for sale by RCA. Defendant believed, however, that the bottle inspection machine developed by Industrial Dynamics Corporation was more useful and would be more successful than any other machine then being marketed.

17. Starting in late 1959 and continuing to this date, the defendant has manufactured and sold machines, known as the Mark IV Bottle Inspector, for the inspection of empty bottles for foreign articles, which are based upon the applications that defendant purchased from Industrial Dynamics Corporation.

18. After Mr. Wyman and Mr. Williams terminated their relationship with Industrial Dynamics Corporation, the then stockholders of Industrial Dynamics Corporation decided that Industrial Dynamics Corporation would discontinue active operations and either be dissolved or continued for the sole purposes of collecting assets and issuing dividends to the shareholders and living up





its obligation under the September 21, 1959, Agreement. This decision was made by them some time prior to September 21, 1959, and the defendant, through its president, Leo Meyer, was made aware by Mr. Calhoun that for all practical purposes Industrial Dynamics Corporation would become dormant.

19. Subsequent to September 21, 1959, Industrial Dynamics Corporation did become inactive and changed its name to Electro-Dynamics Corporation. In April, 1960, Messrs. Calhoun and Browning caused Industrial Dynamics Company, Limited, to be organized under the laws of the State of California as a separate corporate entity. Shortly thereafter, Mr. Browning terminated his relationship with Electro-Dynamics and associated himself with Hughes Aircraft Co. Sometime in the Spring of 1966, Mr. Browning left Hughes and rejoined Calhoun at Industrial Dynamics Company,

20. Since September 21, 1959, Electro-Dynamics Corporation has not manufactured or sold machines for the inspection of empty bottles for foreign particles or any other types of machines or other products. Nor have machines for the inspection of empty bottles for foreign particles been manufactured or sold by a corporation with which Fredrick L. Calhoun or Abner L. Browning have been associated.

21. Mr. Calhoun, and at various times Mr. Browning, have continued to be active for Industrial Dynamics Company, Limited, in research and development in electronic applications in the packaging industry. For example, Mr. Calhoun has developed several new electronic devices relating to the packaging industry, particularly several new devices for inspecting empty and filled bottles for various parameters, including height of liquid level and chips on the rims of bottles. None of the patents on these devices has been sold or licensed by Messrs. Calhoun or Browning or Industrial Dynamics Company, Limited, to the defendant, and the defendant has at various times marketed such other products either through a short-term sales agency or distribution contracts with Industrial Dynamics Company, Limited. Defendant has also contracted with Industrial Dynamics Company, Limited, for further research and development in the field of particle inspectors for empty bottles, and recently Mr. Calhoun has developed for defendant a particle inspector for empty bottles which is being tested by the defendant. The Court finds that none of the covenants in the Transfer Agreement or in the Consultant Agreement has prohibited or inhibit Mr. Calhoun or Mr. Browning from continuing research and development in the general field of electronic applications in the packaging industry or in bottle inspection.



22. In or about July 1959, Mr. James H. Wyman, who is one of the officers of Industrial Dynamics Corporation and one of the named inventors of the patent-in-suit, terminated his employment with Industrial Dynamics Corporation and shortly thereafter sold his stock in the corporation. Later in 1959, Mr. Wyman organized Industrial Automation Corporation, and this company developed a machine for the inspection of empty bottles for foreign particles, the rights to which it subsequently sold to Barry-Wehmiller Company. Defendant has advised Barry-Wehmiller Company of its belief that the bottle inspector so developed by Mr. Wyman and now being manufactured and marketed by Barry-Wehmiller infringes defendant's patents and has demanded that Barry-Wehmiller Company cease and desist such infringement.

23. On April 8, 1960, Mr. Calhoun filed application Serial No. 20,884 in the United States Patent Office on improvements in the machine for inspecting empty bottles for foreign particles as disclosed in and covered by the applications specified in Finding 6. The invention disclosed and claimed by Calhoun in application Serial No. 20,884 is related to an entry by Calhoun in his notebook on or about December 8, 1958, prior to the date that Mr. Wyman terminated his employment with Industrial Dynamics Corporation. Patent applications Serial No. 20,884 and the invention disclosed and claimed in such application were assigned to defendant in accordance with the terms of the Patent Transfer Agreement and/or the Consultant Agreement.

On April 11, 1966, Mr. Wyman filed application Serial No. 21,164 in the United States Patent Office on a machine for inspecting empty bottles for foreign particles, on February 19, 1963, the United States Patent Office instituted Interference No. 93,420 between Calhoun application Serial No. 20,884 and Wyman application Serial No. 21,164 to determine which patent application would have the right to claim the inventive subjects common to both patent applications. In this Interference, Calhoun constituted the senior party, with the resultant benefits as senior party, since Calhoun filed application Serial No. 20,884 in the United States Patent Office before Wyman filed application Serial No. 21,164. Interference No. 93,420 was subsequently dissolved by the United States Patent Office on the basis of motions by Mr. Calhoun and Mr. Wyman to dissolve the Interference.

24. On July 16, 1965, defendant filed application Serial No. 475,316 in the United States Patent Office as a continuation of application Serial No. 20,884. The drawings, specification and some of the claims in application Serial No. 475,316 were identical to those in application Serial No. 20,884 but changes were made in other claims in application Serial No. 475,316 from corresponding claims in application Serial No. 20,884. Application Serial No. 20,884 was subsequently abandoned and application Serial No. 475,316 was thereafter allowed by the United States Patent Office with claims.





On August 27, 1964, Mr. Calhoun filed application Serial 392,499 in the United States Patent Office on improvements in machine for inspecting empty bottles for foreign particles disclosed in and covered by the patent applications specified in Exhibit 6. This application was subsequently assigned to defendant in accordance with the terms of the Consultant Agreement or in accordance with an agreement on the part of defendant to pay for the costs of preparing, filing and prosecuting the application after Mr. Calhoun indicated to defendant that he was interested in continuing the prosecution of the application.

25. Provisions of the Patent Transfer Agreement and the Consultant Agreement require Industrial Dynamics Corporation, during the term of the Patent Transfer Agreement, and Messrs. Calhoun and Browning, during the term of the Consultant Agreement for a three-year period thereafter, to make available to the defendant, at no further cost to the defendant, all improvements in the two patent applications covered by the Agreement. Such provisions are reasonable. These contractual provisions, which the plaintiff described as grant-forward clauses, constitute a reasonable method by which Industrial Dynamics Corporation and Messrs. Calhoun and Browning could dispose of improvements on basic bottle inspection machine patents. They could not license or assign these improvements to a third party, because no third party would be able to manufacture and sell bottle inspection machines coming within the claims of the basic patents owned by the defendant and so would have no interest in the improvements which build upon or add to the basic machines and which cannot be used apart from the basic machines. It was to the advantage of Industrial Dynamics Corporation and Messrs. Browning and Calhoun to make the improvements available to the defendant, rather than others, so that the bottle inspection machines manufactured by the defendant might be as good as they could be and sales and royalties thereby maximized.

26. During a part of the time that Industrial Automation Corporation was developing its bottle inspection machine, Mr. Herbert G. Husome, who is presently president of the plaintiff, was associated with Industrial Automation Corporation and worked with Mr. Wyman in developing the empty bottle inspection machine which Industrial Automation Corporation manufactured and marketed for a time and the rights to which Industrial Automation Corporation ultimately sold to Barry-Wehmiller Company.

27. In or about September, 1962, Mr. Husome left the employ of Industrial Automation Corporation and, together with William V. Wright, Jr., established the plaintiff. Between September, 1962, and February, 1963, the plaintiff developed the bottle inspection machine which it designated as its Model 303 Electronic Empty Bottle Inspector. It is this machine that the defendant claims infringes the patent-in-suit.



28. Plaintiff, defendant and Barry-Wehmiller are the present manufacturers in the United States of machines for inspecting empty bottles for foreign particles.

29. Defendant has entered into two agreements with Mitsubishi Heavy -Industries, Limited, of Japan. The first of these is dated October 31, 1958, and is the basic agreement. The second is dated December 17, 1962, and is a supplemental agreement designed to bring the Mark IV Bottle Inspection Machine within the terms of the basic agreement.

30. By the basic Mitsubishi agreement, defendant transferred to Mitsubishi the rights to Japanese patents, and all the know-how necessary for Mitsubishi to manufacture and sell defendant's products exclusively in Japan and non-exclusively in certain other Far Eastern countries. No United States patents were licensed by defendant to Mitsubishi, nor did Mitsubishi by other means acquire any right to manufacture or sell defendant's patented products in the United States. The second Mitsubishi agreement, dated December 17, 1962, makes reference for definition purposes to the United States patent applications which gave rise to the bottle inspection patents. The second Mitsubishi agreement does not license any United States patent to Mitsubishi in any other manner grant to Mitsubishi any rights to manufacture or sell within the United States bottle inspection machines covered by defendant's patents.

31. Pursuant to the Mitsubishi agreements, Mitsubishi agreed to license defendant, on a royalty-free basis, any improvements on the licensed products that Mitsubishi develops. Such improvements have ever been licensed by Mitsubishi to defendant. Further, Mitsubishi agreed to refrain from using, manufacturing or selling competitive or other designs of bottling machinery for the same purposes as the products licensed to it by defendant without first obtaining permission from the defendant. Mitsubishi has sought such permission on only two occasions and on each such occasion defendant gave its permission. At the time of the second Mitsubishi agreement, Mitsubishi agreed to pay Meyer a minimum royalty of \$600.00 for each bottle inspection machine which it manufactured and sold even though paragraph 4.2 of the agreement provided for a royalty of 7% of the net sales price of each bottle inspector. Defendant was assured a minimum annual royalty by the Mitsubishi agreements. Defendant required a non-compete clause from Mitsubishi to require that, to whatever extent Mitsubishi promoted sales of any bottle inspection machines, Mitsubishi would sell those machines to defendant rather than those of someone else.





1. The Court has jurisdiction of the plaintiff's claims under §1338, Title 28, United States Code, and under the Declaratory Judgment Act, as amended, Title 28, United States Code, §§ 2201-2202. In addition, the Court has jurisdiction over the defendant under Title 28, United States Code, §1391. The Court's jurisdiction of defendant's counterclaims is based upon Rule 13 of the Federal Rules of Civil Procedure and §1338 of Title 28, United States Code.

2. The burden of proof is upon the plaintiff to establish a preponderance of the evidence that the defendant has engaged in activity which amounts to misuse of its basic bottle inspection machine patent.

3. Defendant's acquisition of the patents does not constitute patent misuse.

4. The covenants not to compete contained in the agreements of September 21, 1959, viz., Article XIV of the Patent Transfer Agreement, and paragraph 4 of the Consultant Agreement, do not constitute patent misuse. Article XIV of the Patent Transfer Agreement refers to the bottle inspection machine defined in the first "WHEREAS" clause of the agreement; that is, bottle inspection machine for which two patent applications have been filed and which by the agreement Industrial Dynamics Corporation assigned to the defendant. While Article XIV expressly provides that it is to last during the life of the agreement, its purpose was to prevent Industrial Dynamics Corporation, during the pendency of the patent applications sold to defendant, from making and selling the bottle inspection machines which were within the scope of and were covered by such patent applications and, hence, before the defendant could prohibit their manufacture and sale by enforcing its right as a patentee. The practical effect of the Patent Transfer Agreement and Article XIV was to place the defendant in the same position as Industrial Dynamics Corporation, that is, to substitute one company for the other; the covenant was ancillary to the purchase by defendant of a substantial asset of Industrial Dynamics Corporation and was intended to preserve the value of the asset.

5. As the phrase "in competition with" is used in Article XIV, the Court concludes that it means that Industrial Dynamics Corporation is prevented from making or selling only those machines covered by the assigned patent applications which were the subject of the Patent Transfer Agreement, and does not prevent Industrial Dynamics from making or selling machines not so covered by such applications, or any patents which subsequently issued thereon. The protection of Article XIV was not needed



er the patents issued. Therefore, to the extent that the case "during the life of this agreement" in Article XIV tends indicate that the protection afforded by that Article extends over the life of the patents, it is surplusage.

6. Paragraph 4 of the Consultant Agreement has the same force and effect as Article XIV except that it restrains the consultants, Messrs. Calhoun and Browning, for a limited period of time, namely, the period of their service under the Consultant Agreement and three years thereafter.

7. The Court concludes that these two covenants, Article XIV and paragraph 4, whether considered separately or together, are reasonable in their purpose and in their effect and do not constitute patent misuse or unclean hands.

8. The agreement between Industrial Dynamics Corporation (now known as Electro-Dynamics Corporation) and the defendant dated June 23, 1966, rescinded Article XIV of the Patent Transfer Agreement. Therefore, Article XIV cannot presently impair the defendant's rights to protect the patent here concerned.

9. The Court concludes that Mr. Calhoun and the defendant in exercising their legal rights in filing a continuation application and, even if the purpose of the application may have been in part, to broaden the patent and to cover the bottle inspection machine, which Mr. Wyman developed, and was marketing through Industrial Automation Corporation, the filing of such a continuation application does not constitute patent misuse or unclean hands.

10. The filing of an additional patent application by Mr. Calhoun and the instituting of an interference proceeding with Mr. Wyman's patent application as specified in Finding 23 do not constitute patent misuse or unclean hands by the defendant. These were reasonable and legal procedures employed by Mr. Calhoun and the defendant to attempt to retain the value of their invention by obtaining patent protection against the bottle inspector which they believed Mr. Wyman had conceived while at Industrial Dynamics Corporation.

11. The Court concludes that the defendant's actions to enforce its patent rights against the plaintiff and Mr. Wyman or his assignees by sending them cease and desist letters and by instituting these proceedings do not constitute patent misuse.

12. The Court concludes that the provisions in the Patent Transfer Agreement and the Consultant Agreement described as grant-forward clauses and referred to in Finding No. 31 are valid and do not constitute patent misuse or unclean hands.





13. The provisions of Article VIII. C. of the Patent Transfer Agreement, and paragraph 5. B. of the Consultant Agreement are nothing more than grants of rights of first refusal of other inventions involving electronic applications in the packaging industry that might be developed by Industrial Dynamics Corporation of Messrs. Calhoun and Browning. These grants of rights of first refusal did not inhibit Messrs. Calhoun or Browning from further development, and the Court concludes that these provisions do not constitute patent misuse or unclean hands.

14. The combination of certain terms contained in the agreements of September 21, 1959, viz., the covenants not to compete, the grant-forward clauses and the rights of first refusal do not constitute patent misuse. The conclusions that each term, considered individually, do not constitute patent misuse are set forth in prior paragraphs. The combination of these terms does not alter those conclusions.

15. The requirements to pay royalties during the period of the pendency of the two patent applications specified in Finding 6 and during the life of the patent-in-suit and Patent 3,081,666 (both of which issued as a result of said two patent applications) do not constitute patent misuse.

16. The Court concludes that the Mitsubishi agreements do not constitute misuse of the patent-in-suit, or unclean hands by the defendant. Sperry Products, Inc. v. Aluminum Company of America, 171 F.Supp. 901 (N.D. Ohio, 1959), aff'd. 353 F.2d 911 (C.A. 6, 1960).

17. The Court has examined the cases cited by plaintiff and has concluded that they are distinguishable on their facts or have no application to the case at bar. The case of S. v. Alcoa, 91 F.Supp. 333 (S.D. N.Y., 1950), cited by the plaintiff to support its argument that the grant-forward clauses involved in this case constitutes patent misuse, involved a much different fact situation; it involved a pervasive plan, the effect of which was to give Alcoa complete control of all present and future patents relating to the production of aluminum. National Lock Washer Co. vs. George K. Garrett Co., Inc., 177 F.2d 255, 58 USPQ 460 (3rd Cir., 1943) and McCullough vs. Amerer Corporation, 166 F.2d 759, 76 USPQ 503 (9th Cir., 1948) involved covenants not to compete quite different in their scope, coverage and effect from the covenants involved in the case at bar.

18. The Court concludes that the terms of the Patent Transfer Agreement are understandable, and the Court has therefore interpreted the contract without regard to extraneous evidence.





## APPENDIX B

### FINDINGS OF FACT AND CONCLUSIONS OF LAW

#### FINDINGS OF FACT:

1. The Findings of Fact filed with the Court and signed on January 24, 1967, following trial on the issues of defendant's alleged misuse of the patent in suit are incorporated herein and made a part hereof by reference.

2. Claims 1 to 6, inclusive, and 16 of the patent in suit are not at issue. Claims 7 to 15, inclusive, and 17 to 24, inclusive, of U. S. patent No. 3,133,640 are at issue, with claims 7, 9, 18, 22, 23 and 24 designated by the defendant as representative of these claims.

3. The terminology of the patent in suit seems as understandable and reasonably precise as the respective contexts require. The descriptions contained in the patent in suit are sufficiently concise and clear to enable one skilled in the art to construct that which is taught by the patent.

4. The defendant characterizes its alleged invention as a bottle inspection system which combines a entered optical system with a radial scan to provide spatial filtering for the generation of signal components of a particular frequency or a range of frequencies representing small particles in the bottom of the bottle, electronic circuits for selecting the particular frequency or frequencies representing particles in the bottom of the bottle, and electronic circuits for detecting direct current at a particular level to reject opaque bottles and bottles with relatively large particles in the bottom of the bottles.

5. Reading the patent as a whole, in the light of the evidence presented relating to prosecution of the patent and the teachings of the prior art relating to bottle inspection and missile and star tracking, the Court finds that:

(a) With respect to the use of AC, the drawings and the specifications describe a device whose fundamental purpose is to detect a foreign particle by causing it to set up an alternating current signal of a particular frequency. The nature of the signal indicative of the presence of small particles in the bottle is characterized at column 2, lines 61-64 of the patent where it is stated that "As a result (of small particles of dirt in the bottle)



the output of the photocell will be an alternating current signal, the frequency of which basically is determined by the speed of rotation of the reticle times the number of spokes." The selection of this frequency, or reasonably discriminated band of frequencies (for rejection purposes), accomplished by the LC tuned circuit, which is the heart of the frequency discrimination concept of the '640 patent. The '640 patent teaches the use of RC circuits as couplers, and not as differentiators. If '640 did use their circuits as differentiators, such would destroy the essence of the circuit by reducing the selectivity of the LC circuit. The rejection of an alternating current signal, as contemplated by the patent, is predicated on the particular frequency of the signal. Counsel for the defendant states that the circuit disclosed in the patent is merely an embodiment of the invention, but the Court finds that it is the essence of the disclosure of the patent, insofar as the use of AC is concerned.

(b) The '640 patent discloses a centered optical system whose essential element is a rotatable light stopping disc centered on an axis of rotation that lies, at least 1 times during inspection, within the periphery of the container.

(c) As taught by the patent, the term "axis of rotation" of the disc and "center of rotation" of the disc are synonymous. However, the use of reflective optics in the plaintiff's device is equivalent to the use of refractive optics in the embodiment disclosed in the '640 patent.

(d) The '640 patent discloses a multi-spoked reticle having more than one translucent area and more than one opaque area alternately disposed with the translucent areas, each of the areas extending radially from the center of the disc. The '640 patent does not include a disc having a single reflective line with the remainder of the surface opaque.

6. Where appearing in the patent in suit, such terms as "AC", "alternating current", "alternating current signal", and "substantially alternating current" or the like, mean an alternating current signal which has a substantially constant and repetitive pattern with a substantially predetermined time relationship between successive portions of the signal. Although the plaintiff's machine produces an alternating current signal, it is only concerned with the initial slope of the first pulse thereof, and is not concerned with matters of frequency or repetitive pattern.



7. All of the claims of the patent in suit which employ terms such as "reticle", "disc", "scanning means", "annular member" or the like mean a reticle including at least two radial opaque areas and two transparent areas.

8. Neither the specification nor the drawing contained in the '640 patent discloses anything different from the production of an AC signal having a particular frequency indicative of the presence of small particles in a container; nor do the specification or drawing disclose anything different from a multi-spoked reticle having more than one transparent segment and more than one opaque segment extending radially from the center of the reticle.

9. The nature of the art we are here concerned with is the detection of foreign objects in a field of view by electro-optical techniques, rather than being limited to the bottle inspection field. (This finding also appears as a conclusion of law No. 5.)

10. Electro-optical systems for the detection of objects in the sky, detection of material moving on a conveyor, detection of the presence of objects moving on the ground, and detection of objects in a container, all are systems which reside in an analogous art, and such systems employ similar elements in a similar relationship for a similar purpose. Further, such systems are related by the object of seeking to detect an object having distinct light or dark characteristics in a background of different light or dark characteristics.

11. The Court finds that each of the elements of the patent in suit as hereinabove discussed was well known in the prior art:

(a) A centered optical system, including a device providing a radial scan, is disclosed in the British Patent No. 517,229 issued to Stoate January 24, 1940, and United States Patent No. 3,034,405 filed October 13, 1953, issued to Biberman, et al., May 15, 1962.

(b) The use of DC to detect large objects in a container is disclosed by Stoate '229; United States patent No. 2,265,037 issued to Gulliksen December 2, 1941; United States patent No. 2,439,490 issued to Schell April 13, 1948.

(c) The use of AC to detect foreign objects is disclosed by United States patents to Fitz-Gerald No. 1,603,036; Biberman No. 3,034,405; Schell No. 2,439,490; Weathers No. 2,427,319. The art of attenuating signal components having undesirable frequencies in an AC signal emphasize other signal components having a particular





frequency or frequencies in the AC signal is well known. The art of emphasizing the signal components having the particular frequency or frequencies in the AC signal is also well known.

(d) The Stoate '229 patent discloses a DC system, but does not disclose or contemplate the concept of spatial filtering for the generation of signal components of different frequencies and the selection by electronic techniques of the frequency or frequencies representing small particles in the bottom of the bottle.

(e) The Biberman '405 patent discloses a missile or star tracking system but does not disclose a bottle inspection system. The Biberman '405 patent is the only reference specified in paragraphs 11(a), 11(b) and 11(c) of the Findings of Fact that discloses a centered optical system with a radial scan for providing spatial filtering.

(f) No single reference cited by plaintiff discloses a bottle inspection system employing techniques of spatial filtering or the combination of spatial filtering and electronic frequency selection as defined in paragraph 11 of these Findings of Fact.

12. (a) The '640 patent discloses the first system for detecting small particles in the bottom of a bottle while scanning the bottom of the bottle, including the edge of the bottle, without masking the edge of the bottle.

(b) The need for a satisfactory machine for inspecting empty bottles for foreign particles existed for a considerable period of time before the invention of the embodiment of the '640 patent.

(c) The invention of the '640 patent has enjoyed considerable commercial success.

(d) For all practical purposes, the only machines now being sold in the United States for inspecting empty bottles for foreign particles are those being manufactured by the defendant, the plaintiff, and the Barry-Wehmiller Co. The machine being manufactured by Barry-Wehmiller Co. was developed by Wyman, one of the inventors of the '640 patent, and Husome, president of plaintiff and the person who developed plaintiff's machines.





13. Each of the elements in the patent in suit is employed in substantially the same way, and functions in substantially the same manner, as its counterpart in the prior art. However, all of the elements in the patent in suit do not have counterparts in the field of bottle inspection.

14. Of the above-mentioned prior art references, only Fitz-Gerald '036 was before the United States Patent Examiner. However, the Patent Office cited references disclosing centered optical systems with radial scans in the field of star tracking and missile tracking systems, and the defendant, through its attorneys, called other similar references to the attention of the Patent Office. Such references further disclosed the concept of spatial filtering in the star tracking and missile tracking field. The '640 patent was granted over such references.

15. Upon review of the evidence adduced, the Court finds that the following patents are part of the relevant prior art:

(a) Stoate '229 teaches the use of a centered optical system with a rotatable scanning member having a single radial slit. The scanning member is disposed above the bottle being inspected, with its axis of rotation coincident with the common axis of a light source, bottle and a photocell. Defendant knew, through other attorneys than those prosecuting the applications which resulted in the grant of the '640 patent, of the Stoate '229 patent prior to its argument before the Patent Office to the effect that the centered optical system was an important and novel part of the invention disclosed and claimed by defendant and that defendant was the first to include a centered optical system for the bottle inspection machine disclosed and claimed by defendant.

However, the defendant's attorneys were not convinced at that time that such references actually disclosed a centered optical system, and the defendant did not practice any fraud by any failure on its part to call the Stoate '229 patent to the attention of the Patent Office.

(b) Biberman '405 discloses, in a star tracking or missile tracking system, a centered optical system including a reticle with alternately disposed opaque and translucent areas for the detection of a foreign object in a field of view. Biberman '405 further suggests the use of AC circuitry tuned to a particular frequency to detect a foreign object in a field.



(c) Schell '490 and Weathers '319 teach the combination of an AC signal for the detection of small foreign particles in a field of view, and a threshold or DC level signal for the detection of opaque bottles and large particles in bottles. Further, the Weathers patent discloses the detection of foreign particles in the field of view by use of a tuned circuit.

The defendant's attorneys were aware of the teachings of the prior art mentioned above in this paragraph at the time they argued before the Patent Office in support of their application for the '640 patent, and they did not call such prior art to the attention of the Patent Office. However, the defendant's attorneys did not intentionally withhold anything from the United States Patent Office that they concluded was relevant.

16. The patent in suit is a combination patent.

17. The detection of objects in a field of view in the star tracking or missile tracking field occurs in a relatively homogeneous background. The detection of a small foreign particle in the bottom of a bottle occurs in a substantially non-homogeneous background, especially since the signal components produced by scanning the edges of the bottle have a much greater intensity than the signal components produced by scanning small particles in the bottom of the bottles. Nonetheless, the Court finds that both come within the art here concerned as defined in paragraph 9 hereof.

18. Some of the problems presumably encountered and solved in the development of the defendant's alleged invention were previously recognized and solved by others in the field of missile or star tracking prior to the filing of the '640 patent application by the inventors. Other such problems were previously recognized and solved in the field of bottle inspection prior to the filing of the patent application by the inventors. Some of the problems specific to the bottle inspection field, including the effects of the edge of the bottle, was neither recognized nor solved by others prior to the filing by the inventors of the patent application which matured into the '640 patent.

19. The Court finds that both Williams and Calhoun, the named co-inventors of the patent in suit, possessed at least ordinary skill in the guided missile and missile tracking field, wherein the use of spaced recticle-AC systems or the electro-optical detection of objects against a background was well known prior to filing the patent application or the patent in suit. After organizing Industrial Dynamics, the inventors devoted a number of months in unsuccessful attempts to develop an operative system for detecting





particles in empty bottles before deciding that a scanning type of system was best suited for bottle inspection. Once it was decided that a centered optical system with a radial scan was best suited for bottle inspection, Industrial Dynamics Corporation required only approximately one month to design and construct its first prototype of the machine described in the patent. While the inventors appeared to have had some developmental problems, they were mostly engineering problems, i.e., problems related to the application of the inventor's mechanical and electronic skills.

20. The inventors constructed a number of different embodiments before filing in the Patent Office the patent application which formed the basis of the '640 patent. These embodiments were operative. They included systems having a reticle with a single translucent area and with a single opaque area and with the opaque area considerably larger than the translucent area, the reticle being included to provide spatial filtering when the reticle rotated. These embodiments further included RC circuits to detect the signal components representing small particles in the bottom of the bottles by selecting the range of frequencies representing such particles from other frequencies after the generation of such different frequencies by spatial filtering.

21. What the named inventors did would not be surprising or unobvious to a person skilled in the art.

22. Plaintiff's machines (the allegedly infringing 303 and Slimlight) seek the same end result of detecting foreign particles in a container as does the machine described in defendant's patent. However, the means employed by the SME devices to reach this end result are dissimilar from those taught by the patent in suit. The enumerated respects in which the Court finds them dissimilar are set forth in rather telegraphic reference to the wording of the following claims:

Claim 7.        (a) The different areas of the bottle scanned by the SME machines do not include the center and progressive portions of the periphery of the bottle. In the SME machines the scanning member is rotating at a high rate of speed while the bottle is in continuous motion across the inspection zone. The mirrored slit of the SME scanning member does not extend beyond the center of the member. Therefore, before the center of the bottle reaches the axis of rotation, the scan of the trailing one-half of the sweep does not include the center of the bottle; and the





instant the center of the bottle goes beyond the axis of rotation, the scan of the lead one-half does not include the center of the bottle.

- (b) The detection circuitry of the SME machines is not concerned with rendering a repetitive alternating current signal output at the photocell. Plaintiff's machines are concerned only with the leading edge of a single pulse of electrical energy indicative of the presence of a foreign particle in the container. The fact that the photocell does set up a repetitive alternating current signal is irrelevant to the operation of the SME machine.
- (c) The rejection of a bottle by the SME machine is not dependent upon an alternating signal of a hoped for particular frequency or a discriminated band of frequencies as taught by the patent in suit. In the SME machines, rejection is primarily dependent upon the rate of change of amplitude of a single pulse of electrical energy indicative of the presence of a foreign particle. Such rejection derivative is achieved through the use of an RC differentiating network. The patent in suit teaches rejection selection through the use of an LC tuned circuit responsive to a particular frequency. While plaintiff's machines are concerned only with signals in the 200-5000 c.p.s. range, this is not comparable to the '640 patent wherein a specific frequency, dependent on the speed of rotation of the scanning disc times the number of disc spokes, is sought to be selected.

Claim 9.

- (a) The progressive segments of scan of the scanning member of the SME machines do not, at all times during the complete inspection period, include the center of the bottom of the bottle and progressive portions of the periphery, as discussed with respect to claim 7.
- (b) In the SME machines, the center (axis) of rotation of the rotatable means is not



actually disposed within the bottom of the container. However, while the actual center (axis) of rotation lies outside of the periphery of the bottom of the container, the optical axis, bent by the mirrored surface of the rotating member, does lie within the periphery of the bottom of the container. The offset of the axis of rotation of the SME rotating member is effected to provide a means for scanning the neck of the bottle, a result that is not achieved or taught by defendant's disclosure. This offsetting is done for a purpose that is unrelated to a simple attempt to avoid the charge of copying the claim, and the doctrine of equivalents for this reason is found not to apply.

- (c) As stated above with respect to claim 7, the SME machines are not concerned with indicating the presence of foreign particles by means of alternating signals in a relevant sense as taught by the patent.

Claim 18.

- (a) In the SME machines, the scanning area is not "substantially greater" than the size of the particle sought to be detected, in the sense that the quoted words are used in the '640 patent.
- (b) Because of the motion of bottle through the inspection zone, the SME scanning areas do not include, at each instant, the center and a portion of the periphery of the container. This is discussed above with respect to claim 7.
- (c) The circuitry of the SME machines does not undertake to detect particular alternating components in the photocell output signal in the manner taught by the patent in suit. In a detection sense, the machine taught by the patent in suit is interested in alternating signals of a particular frequency. As indicated hereinabove, with respect to claim 7, the SME machines are interested only in the slope or rate of change of the magnitude of a single pulse.



- (d) The SME machines are not concerned with particular levels, or magnitudes, of an AC Signal produced by the photocell as taught by the patent in suit. Plaintiff's machines are responsive only to the rate of change of magnitude of a pulse and not the ultimate magnitude of the pulse.

Claim 20.

- (a) As set forth in the findings relating to claim 9, the center (axis) of rotation of the SME scanning member is not within the periphery of the container.
- (b) The progressive segments of the areas of the bottle scanned by the SME machines do not include the center and portions of the periphery of the bottle. This was discussed above with respect to claim 7.
- (c) The SME machines are not concerned with producing an alternating current signal at a particular frequency and magnitude related to the size of the particle. The rejection portion of the circuitry of the patent in suit will reject a bottle only if the input thereto is an AC signal having a particular frequency, or selected range of frequencies, indicating the presence of a foreign particle. In the SME machines, the detection circuitry will accept signals over a broad range of frequencies but reject a bottle only if a single pulse received indicates a particular rate of change of magnitude.

Claim 21.

- (a) For the reasons indicative hereinabove with reference to claim 9, the center (axis) of rotation of the SME scanning member is not within the periphery of the bottle to be inspected.
- (b) As stated hereinabove with respect to claim 18, in comparison with the teachings of the '640 patent, the SME area of scan is not substantially larger than the cross-sectional area of a dirt particle sought to be detected.
- (c) The area of scan of the SME machines at any instant does not include the center of the bottle to be inspected.





Claim 22: (a) For reasons indicated hereinabove with respect to claim 7, the plaintiff's machines are not concerned about rendering an alternating current signal output, nor is the rejection of a bottle based upon an alternating signal in a relevant sense as taught by the patent in suit.

Claim 23: (a) For the reasons indicated hereinabove with respect to claim 7, the plaintiff's machines are not concerned with rendering an alternating current signal output in a relevant sense as taught by the patent in suit.

(b) The SME machines do not use an amplifier mean tuned to a specific frequency range. The fact that the plaintiff's machines set up frequencies ranging from 200 to 5000 cycles per second, does not constitute focusing on a "specific frequency range" in the sense taught by claim 23. Consequently, plaintiff's machines are not constructed to reject a bottle on the basis of an alternating current signal having a frequency within a specific range.

Claim 24: (a) The scanning member of the SME machines is not on a center located within the periphery of the bottle. This is discussed with reference to claim 9.

(b) As opposed to the teachings of the '640 patent, the SME scanning member does not have alternate radial opaque and translucent areas. Reading the patent as a whole, the term "areas" means more than one with respect to both opaque and translucent respectively. Referring to the SME scanning member it cannot be said that the opaque area extends in a radial direction out from the center in the same or similar sense as the opaque areas of the scanning disc disclosed by the patent in suit.

23. Based upon statement of defendant's counsel that the defendant is willing to predicate its case upon the claims hereinabove discussed, the Court has limited its detailed discussion to those claims. However, the evidence establishes, and the Court finds, that the remaining claims





at issue, namely 8, 10-15, inclusive, 17, 19 and 20 are not infringed by the SME machines.

## CONCLUSIONS OF LAW

1. The Findings of Fact and Conclusions of Law filed with this Court and signed January 24, 1967, following trial on the issues of the defendant's alleged misuse of the patent in suit are incorporated herein and made a part hereof by reference.

2. This Court has retained jurisdiction of the parties and of the causes of action set out in the Complaint and Counterclaim.

3. All of the remainder of the claims are properly at issue, and the defendant has chosen to predicate its case upon claims 7, 9, 18, 22, 23 and 24.

4. 35 U.S.C.A. Section 282 provides in part, "A patent shall be presumed valid. The burden of establishing invalidity of a patent shall rest on a party asserting it." Plaintiff herein is charged with that burden.

5. Whether arts are analogous depends upon the similarity of their elements and purpose. If elements and purpose in one art are so related and similar to those in another art that the relationship would appeal to the mind of a person having mechanical skill and knowledge of the purposes of the other, then the arts may be said to be analogous. The nature of the art or field of interest we are here concerned with is the detection of objects in a field of view by electro-optical techniques, rather than being limited to the bottle inspection field. (See also Finding No. 9.)

6. Electro-optical systems for the detection of objects in the sky, detection of material moving on a conveyor, detection of the presence of objects moving on the ground, and detection of objects in a container, all are systems which reside in an analogous art, and such systems employ similar elements in a similar relationship for a similar purpose. Further, such systems are related by the end object of seeking to detect an object having distinct light or dark characteristics in a background of different light or dark characteristics. (See also Finding No. 10.)

7. Both parties have properly characterized the patent in suit as a combination patent. In construing the patent, it must be read as a whole and the claims interpreted in the light of the specifications.



8. The evidence establishes and the Court concludes that each element of the patent in suit is anticipated in prior art references as such prior art is defined in Conclusions 5 and 6 hereof. No single element of the patent in suit constitutes invention. Scrutiny of combination claims should be even more detailed when, as with the patent in suit, the old elements have been previously employed in a similar relationship for a similar purpose, or when the elements perform the same function in combination as out of it.

9. Even if all the claims here in issue disclosed the combination of all of the elements of the alleged invention, each of such claims would be invalid for lack of invention over the prior art here concerned. "A patent for a combination which only unites old elements with no change in their respective functions,. . . obviously withdraws what already is known into the field of its monopoly and diminishes the resources available to skillful men."

Farr Co. v. American Air Filter Co., 318 F.2d 500,  
503 (9th Cir. 1963).

10. The validity of the '640 patent depends on the disclosure of a combination that "produces in some way or manner a surprising or unusual result which would not have been expected by a person having ordinary skill in the art."

Canadian Ingersoll-Rand Company v. Peterson Products  
of San Mateo, 223 F. Supp. 803, 808 (N.D. Calif.  
1963).

11. No claims in the patent are so broad as to purport to include each of the elements of the combination that the defendant contends for its patent, as set forth in Finding of Fact No. 4.

12. All of claims 7 to 15, inclusive, and 17 to 24, inclusive, are invalid as being obvious under 35 U.S.C.A. Section 103.

13. If the missile and star tracking field cannot be properly considered with the bottle inspection field as a single art of detecting objects in a field of view by electro-optical techniques, the system disclosed and claimed in the '640 patent constitutes an invention over the prior art relating to bottle inspection, and the patent is valid.



14. On each of plaintiff's allegations, the Court concludes that the defendant has not practiced a fraud on the United States Patent Office in its prosecution of the application for the patent in suit.

15. Plaintiff's contention that the claims of the patent in suit must fail because they are fatally ambiguous, indistinct and indefinite is rejected. Further, the Court concludes that the description contained in the patent in suit is sufficiently clear and concise to enable one skilled in the art to construct the disclosure thereof.

16. The Court concludes that the patent in suit does not fail for improper joinder of inventors. Plaintiff has failed to bring forth sufficient evidence tending to show that Wyman was not a proper co-inventor on said patent.

17. The previously stated conclusions of the Court with respect to the validity of the patent in suit preclude the necessity for the Court to rule upon plaintiff's contentions that claims 7 to 15, inclusive, and 17 to 24, inclusive, are invalid because they were filed more than one year after public use began.

18. The burden of proof is upon the one asserting infringement to establish the infringement of a patent by a preponderance of the evidence.

19. Where the elements of the patent are found in various prior patents in the same art field of interest, the patent will be construed strictly according to its terms. The terms in a patent must be strictly construed against the patentee in determining infringement. Claims must be construed not only in the light of the specification and drawings, but also with reference to the file history; claims must always be explained by and read in conjunction with, the specification and in the light of definitions and admissions made by the applicant in Patent Office proceedings.

20. In order for a patent to be infringed, each and every element of at least one of the claims of the patent must find its counterpart in the accused device, a situation that is not present here as to any claim.

21. In order to constitute equivalency of devices, it must be established that the same or similar functions are performed in substantially the same way or manner or by the same, or substantially the same, principle or mode of operation. Although the device disclosed in the '640 patent and the SME devices are similar from the standpoint of result (or function) (save the neck detection function of the SME machines, a capability not achieved by defendant's







device), they are dissimilar as to the means of achieving these results (or performing these functions), and therefore are not equivalent.

22. An invalid patent may not be infringed, and the Court accordingly concludes that none of the claims here concerned are infringed by the plaintiff's machines. Moreover, even if the patent in suit were in any respect to be declared valid, the Court concludes that it is not infringed, in light of Conclusion No. 20 hereof and Finding of Fact No. 22.

23. Plaintiff is entitled to a declaratory judgment on its Complaint that claims 7 to 15, inclusive, and 17 to 24, inclusive, of the patent in suit are invalid and not infringed.

24. Plaintiff is further entitled to a judgment dismissing defendant's Counterclaim and awarding costs to plaintiff for the portion of the litigation relating to patent validity and infringement. Each party will bear its own attorney's fees.



APPENDIX C

. PLAINTIFF'S EXHIBITS

<u>Plaintiff's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
1	119	123
2	119	123
3	129	130
4	185	190
5	195	197
6	258	260
7	274	274
8	276	276
9	278	278
10	292	292
11	292	292
12	297	297
13	297	297
14	316	317
15	339	341
16	339	341
17	347	349
18	350	351
19	350	351
20	350	351
21	369	370
22	389	390



<u>Plaintiff's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
23	389	390
24	393	394
25	393	394
26	398	398
27	399	399
28	401	401
29	420	421
30	423	425
31	423	425
32	426	427
33	426	427
34	506	508
35	545	546
36	545	547
37	545	563
38	545	563
39	568	
40	687	688
41	690	691
42	693	693
43	693	694
44	694	696
45	701	701
46	701	704
47	704	710



<u>Plaintiff's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
48	711	711
49	712	733
50	742	
51	746	750
52	823	1612
53		861
54		926
55	947	948
56	947	948
57	947	948
58	949	953
59	954	955
60	972	1089
61	1058	1561
62	1068	
63	1084	1084
64	1086	1090
65	1094	1466
66	1106	1106
67	1142	1142
68	1161	1162
69	1166	1166
70	1375	1397
71	1414	1612
72	1415	





<u>Plaintiff's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
73	1416	1491
74	1439, 1438	1438
75	1441	1455
76	1441	1610
77	1449	1452
78	1463	1465
79	1477	1637
80	1490	1491
81	1513	1513
82	1550	1550
83	1570	1574
84	1575	1575
85	1591	1591
86	1600	1609
87	1616	1632
88	1633	1633
89	1636	1793
90	1642	1642
91	1648	1648
92	1655	1660
93	1660	1666
94	1666	1673
95	1667	1673
96	1673	1677
97	1679	1681



<u>Plaintiff's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
98	1681	1684
99	1695	1695
100	1926	1926
101	1931	1949
102	1932	1971
103	1932	1971
104	1949	2159
105	1951	2178
106	1971	1984
107	1995	2193
108		2010
109		2085
110		2112
111	2131	2151
112	2152	2153
113	2152	2153
114	2152	2153
115	2152	2153
116		2150
117	2177	2178
118	2177	2178
119	2179	2187
120		2193
121	2195	2201
122	2201	2203



# I. DEFENDANT'S EXHIBITS

<u>Defendant's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
A	146	147
B	443	447
C	473	478
D	492	493
E	102	108
F	108	108
G	110	110
H	118	118
I	124	124
J	154	154
K	167	167
L	174	174
M	181	181
N	186	186
O	221	221
P	229	231
Q	232	242
R	242	242
S	243	245
T	245	247
U	249	251
V	253	253
W	254	254





<u>Defendant's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
X	258	259
Y	260	264
Z	269	295
AA	298	529
AB		337
AC	359	360
AD	360	360
AE	363	668
AF	409	429
AG	472	480
AH	481	486
AI	486	490
AJ	490	492
AK	402	493
AL	494	494
AM	517	523
AN	524	524, 2354
AO	564	565
AP	610	618
AQ	618	2353
AR	622	622
AS	623	623
AT	629	629
AU	630	631



<u>Defendant's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
AV	631	
AW	641	
AX	651	661
AY	669	672
AZ	673	674
BA	674	677
BB	677	680
BC	681	681
BD	681	681
BE	684	684
BF	685	685
BG	685	685
BH	1008	1009
BI	1021	1023, 1397
BJ to BM, incl.	1022	1023
BN to BQ, incl.	1025	1025
BL to BQ		1312
BR	1277	1312
BS	1279	1312
BT	1285	1312
BU	1298	1312
BV	1304	1312
BW	1312	1322
BX	1323	1334
BY	1334	1611



<u>Defendant's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
BZ	1702	1703
CA	1703	1704
CB	1704	1706
CC	1708	1708
CD	1709	1709
CE	1710	1711
CF	1712	1758
CG	1712	1758
CH	1718	1758
CI	1722	1758
CJ	1750	1758
CK	1758	1760
CL	1760	1777
CM	1809	1820
CN	1837	1848
CO	1847	1859
CP	1859	
CQ	1860	2353
CR	1879	
CS	2055	2356
CT	2066	2080
CU	2066	2080
CV	2077	
CW	2082	2083



<u>Defendant's Exhibits</u>	<u>For Identification</u>	<u>In Evidence</u>
CX	2226	2239
CY	2239	2255
CZ	2255	2273
DA	2291	2294
DB	2293	2356
DC	2331	2331
DD	2361	
DE	2397	





APPENDIX D

Extract of Deposition of George L. N. (Leo) Meyer, Sr.

Taken December 18, 1965 (P. 31, L. 13 through P. 33, L. 25)

Now, I would like in particular to call your attention to Article Roman numeral XIV, and ask you, sir, how the wording in this agreement came into being. That is, who presented it, who proposed it, as it evolved in your negotiations from June of 1959 as it culminated in September of 1959?

Well, I would say that during the negotiations with Mr. Calhoun, we ran into a stalemate, neither of us could agree to anything the other wrote as a final agreement, and we then called in Mr. John Michaels of Michaels, Frederick & Best, and he drew up the agreement that was sent out to Calhoun and to his attorneys, I think which were Lyon and Lyon at that time, and most of the wording in this agreement was Mr. Michael's words and thoughts.

Well, Mr. Michael, of course, was reflecting the agreement or attempted agreement that you and Mr. Calhoun had been negotiating between yourselves, isn't that correct?

Yes.

Now, you have indicated that there were differences of opinion. You could not agree, that is you on behalf of Meyer Company and I assume you mean Mr. Calhoun on behalf of Industrial Dynamics, is that right?

Yes.



You presented this agreement, it was prepared on your behalf by Mr. Michaels?

That's correct.

Now, was this disagreement or inability to reach agreement related in any way to the agreement not to compete portion of the agreement?

I don't think that neither Calhoun nor myself had any disagreement on the contract. It was merely the wording of it we couldn't agree with it.

That's what I am discussing. Of course, I am asking about the wording of the agreement not to compete portion of the contract. I don't think so.

You don't think you had disagreement on that portion?

No.

There were disagreements on the wording of other portions?

Yes. The wording only. I think generally we were in agreement fairly quickly, but we couldn't write anything down that either of us would accept.

Yes, now, with respect to the wording which finally evolved in the one sentence constitutes Article Roman XIV on page ten of Plaintiff's Exhibit 8, will you tell me, sir, if this wording as you understood it in September of 1959, differed in any way from your understanding of the agreement that you wished to secure from Mr. Calhoun and his company regarding the subject of an agreement not to compete?



Well, I think this is an agreement not to compete in the bottle inspecting machine as cited in the original in the document here as the definition that will carry through.

In other words, on the bottle inspecting machine for ascertaining dirt in the bottle coming from a bottle washer.

(Emphasis added)





APPENDIX E

Extract Of Deposition Of Milton Shapiro

Taken May 4, 1966 (P. 25, L. 19 through P. 26, L. 23)

Do you recall any discussions at that time regarding the relationship of the companies, IDC and Meyer, that would follow subsequent to the entry into a contract regarding the right of IDC to compete with the Meyer Company?

I remember generally -- and this may be the first meeting or the second meeting; I am not sure which -- that Meyer did want some sort of protection against a competing machine that IDC might come up with. Now, how they worked out this -- there was some talk about whether they could get the protection, et cetera, but quite honestly this was not something I was concerned about. My concern was that if the deal could be made and made favorably, my employers would not only get back their money but may even make a profit.

As best you can recall, will you state for us what it was that Mr. Meyer asked for?

I can only sum it up in one word: protection.

ROSTON: At what meeting?

HORN: Q. Protection?

Protection.

Do you recall the statement being made or being used by Mr. Meyer such as an agreement not to compete?



Those words may have been used. I am not sure by whom. It may have been either by Mr. Meyer or by Fred or by both, or by somebody else.

What did you understand was being sought in this connection by Mr. Meyer?

I think what he was seeking was protection against having Industrial come up with a machine that would knock his machine -- 'his' being the one that he was going to be taking over -- out of the box. (Emphasis added)



## APPENDIX F

### Tabulation Of Cases Addressing Non-Compete

#### Clauses Similar to Article XIV

##### Clause

##### Case

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement.

McCullough v.  
Kammerer Corp.,  
166 F.2d 759 (9th  
Circuit, 1948),  
cert. denied,  
335 U.S. 813

12. The licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use or in any way do business with the device or devices covered by this agreement.

(1948)

Touchett [plaintiff] agrees to be precluded from manufacturing or selling or causing the manufacture or sale of any of the items covered by the foregoing patents or of any paint rollers or paint trays substantially similar to the items covered by said patents provided only that Touchett shall be entitled to manufacture such items upon request and order of the corporation.

Touchett v. E Z  
Painter Corp., 150  
F.Supp. 384 (E.D.  
Wis. 1957)



The licensees further agree that they will not directly or indirectly enter into the leasing, manufacture or sale of any devices similar to the licensed device or competitive thereto so long as they operate under this license.

It is understood and agreed that during the term of this agreement, or any extension thereof, Second Party shall not manufacture or distribute in the United States and Canada any other safety type or automatic releasing ski binding other than that manufactured by First Party, together with any improvements developed by First Party and approved by Second Party.

"Second Party. . .further agrees not to merchandise or offer for sale any merchandise which could be competitive with any of the articles, items or merchandise manufactured and/or distributed by the First Party (Russel), without the written approval of the First Party."

Chamberlin v. Clark Bros., 96 F.Supp. 498 (S.D. Cal. 1951)

Berlenbach v. Anderson and Thompson Ski Co., 329 F.2d 782 (9th Circuit, 1964), cert. denied, 379 U.S. 830 (1964)

F. C. Russell Co. v. Consumers Insulation Co., 226 F.2d 373 (3rd Circuit, 1955)





"For the duration of this contract,  
[Heckethorn] agrees not to  
manufacture, sell or dispose of  
any other shock absorber which  
is competitive with the shock  
absorber covered by said patents."

Columbus Automotive  
Corp. v. The Oldberg  
Manufacturing Co.,  
387 F.2d 643 (10th  
Circuit, 1968)



SUMMARY OF CALHOUN'S TESTIMONY REGARDING STRAINED CONSTRUCTIONS ADOPTED BY MEYER AT TRIAL OF INFRINGEMENT AND VALIDITY ISSUES (RC CIRCUITS AS DIFFERENTIATORS)

Meyer, through Calhoun's testimony at the trial, attempted to further broaden its claim through a strained construction by contending that:

1. The RC circuits in the '640 patent serve a differentiating function (i.e., change the waveshape and thus render an output representative of the slope of such waveshape); this in order to interpret the claims to cover the slope detection technique of the SME machine as well as the frequency selection technique taught by the '640 patent.

2. The RC circuits in the '640 patent in fact serve to couple and not differentiate, and the Court so found. (Finding of Fact No. 5(a), R. 1940) This was amply supported by the evidence. (Appellee's Brief, p. 21, case No. 22592-A) The coupling and differentiating functions for an RC circuit are mutually exclusive (Griest Tr. 2110).<sup>1</sup>

To the very minor extent that it discussed any of the RC circuits therein, the '640 patent merely states, in passing, at Col. 5, line 5 that such serve the purpose of coupling one stage to another.

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References herein to "Griest" and "Ryde" are to Dr. Raymond Ward Griest and Mr. John L. Ryde, two of SME's expert witnesses.



An expert analyzing the patent, including its file history, would conclude that the RC circuits included therein not serve as differentiators, but rather as coupling circuits (Griest, Tr. 2124 and Ryde, Tr. 1474) Contrariwise, in order to function properly, the allegedly infringing machines require RC differentiating circuits. (Griest at Tr. 2110)

3. Calhoun testified on deposition (Ex. 71) that the circuits in the '640 patent served a coupling function; at the trial he testified that they served a differentiating function. The Trial Court stated that Calhoun in his deposition testified that RC circuits in the '640 patent serve as couplers and that at the trial was trying to twist them into differentiators. (Ex. 2694)

4. Williams in his deposition in evidence (Ex. 71) testified that the '640 patent electronically did not differentiate, i.e., employ slope detection, while SME's machines do so operate. More specifically, Williams at page 10, lines 10-26, answered as follows:

"Q Is it your understanding that the SME system, from an electronic signal processing point of view, is concerned at all with the shape of the output signal as opposed to amplitude, for example?

A. It is my understanding that the SME system is concerned with the shape of the detector output signal, in that the amplifier used in the SME system, as I understand it, has a rising amplitude versus frequency characteristic or from the time domain point of view is essentially a differentiator.

Q. And therefore it is looking at the rate of





change of the signal, is that not right, of the shape of the signal?

A. Yes, it tends to do this.

Q. Does the '640 system do this in its detection mechanism electronically?

A. No."

And Ryde at Tr. 1687 and Griest at Tr. 2098-2101

Similarly testified.

5. For the RC circuits(labeled A, B, C, E & E in p. 73) to serve as differentiators and contribute to an important feature of the operation of the '640 patent, it would seem that they ought to have been so discussed in the patent. But in fact the opposite is the case. The only instance where they are discussed in the patent is at column 5, line 5 where they are stated to serve as couplers. So unimportant were these RC circuits considered by the inventors, that they were not even awarded reference numerals in the specification and drawings of the patent.

Thus, it may be readily seen that such strained constructions did no more than confuse the major issues before the Trial Court and unduly prolong the trial.



## APPENDIX H

### SUMMARY OF MEYER'S TRIAL DEMONSTRATION REGARDING THE EQUIVALENCY OF '640 AND SME DETECTION CIRCUITS

At the trial, Calhoun demonstrated an alleged emulation of a machine corresponding to the '640 patent and the SME machine. An electronic amplifier (Ex. AA) was produced into evidence and testified to by Calhoun as being representative of both machines; a switch was provided to have it work in one version or the other (Tr. 410). Also produced in evidence was a circuit diagram (Ex. AF) depicting the circuitry of Ex. AA.

That Ex. AA was in fact representative of the '640 machine was clearly demonstrated to be untrue in the following three respects:

1. The inductor, or coil, equivalent to 82 of Figure 4 of the '640 patent, was of an extremely low Q, or quality; it being approximately 0.44 instead of the order of magnitude contemplated by the patent. Williams testified on deposition that a Q of 5 was appropriate for the coil in accordance with the '640 patent. (Williams Depo., p. 129, 810) Ryde Tr. 1631 and Griest Tr. 2114 also so testified.<sup>1</sup>

---

References herein to "Griest" and "Ryde" are to Dr. Raymond Ward Griest and Mr. John L. Ryde, two of SME's expert witnesses.



2. A resistor was wired in parallel across the circuit (comprising a capacitor and a coil ostensibly equivalent to the L and C, numbered 80 and 82 in Figure 4 of the '640 patent) and this resulted in swamping whatever tuning effect the LC circuit in Ex. AF might otherwise have had, thus destroying its tuning capacity (Tr. 1621).

3. Because of the above, the test performed in open court by Calhoun (Tr. 407) gave the impression that Ex. AA functioned in a similar manner as does the alleged-infringing SME machine when in fact it did not. The over-circuit of (Ex. AF) was not the same or equivalent to SME's machine (Tr. 2118).

After the demonstration of Ex. AA, SME made a demonstration of its own to show the manner in which a resistor used across an LC tuned circuit swamps out the tuning effect of such circuit beginning at Tr. 1600 (Ex. 86). When he testified at Tr. 1614 that Ex. AA was not in accordance with the '640 patent and explained why (mentioning the provision of the swamping resistor), the Trial Court on its own asked Ryde why he thought the resistor was placed there by SME. Mr. Ryde charitably replied at Tr. 1623 that an answer would be "pure speculation" and said further, "I really don't understand it."

